

Governance Mechanisms and CSR Disclosure: The Role of AAOIFI Standards in Enhancing Transparency among Takaful Companies

FAHRU AZWA MOHD ZAIN, WAN AMALINA WAN ABDULLAH, SITI FARIHA MUHAMAD, HAMDY ABDULLAH & SHEIKH AHMAD FAIZ SHEIKH AHMAD TAJUDDIN

ABSTRACT

This study explores the impact of governance mechanisms on the voluntary Corporate Social Responsibility (CSR) disclosure of Takaful companies, with a specific focus on compliance with AAOIFI Governance Standards No.7. Using content analysis of annual reports from Takaful companies in Southeast Asia (SEA) and the Gulf Cooperation Council (GCC) regions; the research examines how Corporate Governance (CG) and Shari'ah Supervisory Board (SSB) influence the adoption of these standards. The findings reveal that while CG strength significantly enhances voluntary CSR disclosure, the impact of SSB is insignificant. Additionally, political and civil repression negatively correlates with voluntary disclosure, indicating that companies in less-repressed societies are more inclined to provide CSR information. This research underscores the critical role of robust CG in promoting transparency and highlights the influence of societal contexts on disclosure practices. The study contributes to the literature by elucidating the role of AAOIFI standards in enhancing CSR disclosure within the Takaful industry.

Keywords: Voluntary CSR disclosure; AAOIFI standards; governance mechanisms; takaful companies

INTRODUCTION

The takaful industry, a vital segment of Islamic finance, is experiencing robust global growth, appealing to both Muslim and non-Muslim customers with Shari'ah-compliant insurance solutions (Sallemi & Zouari 2024). The *Islamic Finance Development Report* (2023) reports global Islamic finance assets at US\$4.5 trillion in 2022, projected to reach US\$6.7 trillion by 2027, driven by strong ecosystems in the Gulf Cooperation Council (GCC), Malaysia, and Indonesia. This growth amplifies stakeholder demands for transparency and ethical conduct, making Corporate Governance (CG) and Corporate Social Responsibility (CSR) pivotal. CG ensures accountability and Shari'ah compliance, while CSR disclosure demonstrates ethical and sustainable practices, fostering trust and distinguishing takaful from conventional insurance. In 2024, firms like Prudential BSN Takaful Berhad supported community sustainability through Ramadan programs (Harinderan 2024), and Takaful Ikhlas General Berhad won accolades at the Malaysia Management Excellence Awards for CSR excellence (Danica 2025).

Takaful operators face mounting pressure to align CSR disclosure with frameworks like the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Governance Standards, particularly Standard No. 7. This standard outlines policies for social responsibility, ethical investments, and environmental stewardship, ensuring transparency in stakeholder dealings and Shari'ah adherence. Unlike the Global Reporting Initiative (GRI), which offers a generic sustainability framework, AAOIFI standards are tailored to Islamic finance, aligning CSR with Shari'ah principles and cultural values, making them more suitable for takaful. However, the voluntary adoption of AAOIFI standards varies, and factors driving this process are underexplored, revealing a research gap. The interplay of governance mechanisms, such as CG and Shari'ah Supervisory Boards (SSBs), warrants further investigation due to their inconsistent influence on CSR disclosure across regions, shaped by regulatory and cultural differences.

The industry faces trust-building challenges, including regulatory inconsistencies, diverse Shari'ah interpretations, and the need to prove ethical commitment beyond compliance. CSR disclosure mitigates these by transparently showcasing social and environmental initiatives, reinforcing stakeholder confidence. Additionally, societal factors like political rights and civil liberties influence disclosure practices. Public demand for transparency drives robust CSR reporting in freer societies, while repressive environments may limit it (Mohd Zain et al. 2023). This study examines how CG, SSBs, and societal factors shape AAOIFI standard adoption for CSR disclosure in takaful firms across Southeast Asia (SEA) and GCC regions, chosen for their Islamic finance prominence and regulatory diversity. It provides a comparative analysis of disclosure practices, offering empirical insights into drivers, barriers, and regional disparities alongside practical recommendations for enhancing transparency.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The literature on CSR disclosure in Islamic finance, particularly within takaful (Islamic insurance) companies, is growing rapidly. Scholars, such as those in Platonova et al. (2018), have emphasised its role in improving transparency, accountability, and stakeholder trust. Unlike conventional finance, CSR disclosure in Islamic finance is grounded in ethical values, focusing on compliance with Shari'ah principles and promoting societal welfare. Research by Ullah, Muttakin and

Khan (2019) and Nazri et al. (2020) shows that CSR disclosure enhances corporate image by demonstrating a company's commitment to ethical practices, community support, and environmental responsibility, which builds public trust and strengthens brand reputation. It also supports investment decision-making by providing stakeholders with clear, reliable information and aligns with the Islamic principle of prohibiting information withholding. However, while CSR disclosure is well-explored in conventional financial institutions, research on Islamic financial institutions (IFIs), including takaful, remains limited (Platonova et al. 2018).

Several scholars have explored the determinants and motivations behind CSR disclosure in takaful companies. Key factors include organisational characteristics, industry competition, regulatory pressures, and stakeholder expectations (Muhamat et al. 2022; Nazri et al. 2020; Sallemi & Zouari 2024; Ullah et al. 2019). Governance structures, including CG and the Shari'ah Supervisory Board (SSB), play a crucial role in shaping these practices. CG promotes ethical management and accountability, while the SSB ensures Shari'ah compliance, guiding how takaful operators report on CSR aspects such as environmental efforts, community development, ethical conduct, and employee welfare. Studies also evaluate compliance with international standards, like those from the AAOIFI, to assess the quality and consistency of disclosures (Mejri et al. 2023; Mohd Zain, Wan Abdullah & Percy 2021).

CSR disclosure in Islamic finance stands apart from conventional practices due to its integration of financial and non-financial information, reflecting the holistic nature of Shari'ah principles. Singh and Chakraborty (2021) link CSR to the principle of full disclosure, a cornerstone of Islamic business culture. Unlike Western standards, Islamic CSR disclosure must align with Shari'ah Islamiyyah and support both economic and religious decision-making, requiring qualities like relevance, objectivity, and materiality. Guided by the principle of tawhid (unity), it reflects accountability to Allah S.W.T. and society, necessitating tailored criteria to assess CSR practices in IFIs, as conventional frameworks may not fully capture its ethical and spiritual dimensions.

Despite advancements in understanding CSR disclosure in takaful companies, significant research gaps remain, particularly in exploring how governance mechanisms, societal factors, and disclosure practices interact, specifically focusing on political rights and civil liberties (Platonova et al. 2018). Political rights and civil liberties are critical because they shape the environment in which takaful companies operate, influencing stakeholder expectations and the ability to report transparently on CSR activities like community support and ethical practices. For instance, stronger political rights may empower stakeholders to demand greater accountability, while robust civil liberties can foster open dialogue, encouraging companies to disclose their social and environmental impacts more effectively. The unique context of IFIs, such as takaful companies, refers to their adherence to Shari'ah principles, which prioritise ethical and socially responsible practices, setting them apart from conventional financial institutions. This distinct framework requires tailored approaches to CSR disclosure. Challenges include the absence of standardised guidelines, limited regulatory oversight, and insufficient stakeholder engagement, all of which hinder consistent and transparent CSR reporting in Islamic finance. Future research should focus on these gaps to better understand how political rights, civil liberties, and the unique Shari'ah-compliant context shape CSR disclosure, offering valuable insights for takaful companies, regulators, and society (Platonova et al. 2018).

CSR disclosure plays a vital role in promoting ethical conduct, social responsibility, and stakeholder engagement within the takaful industry. The literature underscores its importance, identifies key drivers, and highlights its distinct alignment with Shari'ah principles. However, challenges such as inconsistent frameworks and limited research on IFIs persist. Addressing these through standardised guidelines and continued study is crucial to advancing transparency and ethical alignment in Islamic finance and ensuring that takaful companies meet stakeholders' expectations and uphold their religious and societal obligations.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This study explores voluntary CSR disclosure in takaful companies that provide Islamic insurance, using agency, stakeholder, and political economy theories (Tahir et al. 2021). Agency theory views takaful firms as agents for policyholders, with governance tools like the SSB ensuring compliance with Islamic principles and aligning interests to reduce conflicts. Transparent CSR disclosure strengthens accountability in this relationship. Stakeholder theory highlights the expectations of diverse groups, policyholders, shareholders, employees, and communities, with the SSB acting as a key religious stakeholder (Tahir et al. 2021). Voluntary disclosure builds trust and supports long-term sustainability by meeting these demands. Political economy theory examines how socio-political factors, such as regulations and civil liberties, drive disclosure, particularly in regions where society demands greater corporate transparency.

Voluntary CSR disclosure offers significant benefits for takaful companies. It provides clear, ethical information to investors, improving resource allocation and lowering capital costs. It also reduces conflicts among stakeholders, fostering harmony in firms with diverse ownership (Eldaia & Hanefah 2023; Mohd Zain et al. 2021). In takaful, such disclosure aligns with Shari'ah principles, supporting both economic and religious decision-making while enhancing the firm's reputation to attract ethically-minded customers. Compliance with AAOIFI Governance Standards varies, especially Standard No. 7 for CSR. While adherence is strong in areas like the Shari'ah Committee, enforcement lags behind International Financial Reporting Standards (IFRS). However, AAOIFI's focus on Islamic finance makes it highly relevant, and understanding factors like regulatory support or firm characteristics is crucial for improving transparency.

Despite its importance, research on voluntary CSR disclosure in takaful companies has gaps. There is limited study of socio-political influences, such as civil liberties and cultural factors, and few comparative analyses between regions like Southeast Asia and the Gulf Cooperation Council (GCC). The drivers of voluntary adoption also need more exploration. Addressing these gaps could improve governance and stakeholder trust. In conclusion, voluntary CSR disclosure, shaped by governance and socio-political factors, is essential for transparency and alignment with Shari'ah principles in takaful companies. Evaluating AAOIFI standard adoption and its drivers is key to enhancing industry legitimacy and stakeholder engagement (BenSaid 2023; Mejri et al. 2023; Sallemi & Zouari 2023).

CORPORATE GOVERNANCE STRENGTH

Studies by Wan Abdullah et al. (2013, 2015) and Mohd Zain et al. (2023; 2021) define CG strength using CG mechanism factors such as board size, board independence, audit committee composition, and the separation of the board chair and CEO roles. CG strength plays a crucial role in shaping how companies disclose their CSR activities. Strong governance mechanisms promote greater transparency and accountability, which are essential for effective CSR reporting, as Rahi et al. (2024) noted. For example, independent boards and audit committees are better equipped to monitor CSR initiatives, ensuring they align with the company's goals and meet stakeholder expectations, as highlighted by Sallemi & Zouari (2023).

Furthermore, the expertise of board members and audit committee professionals in financial matters can enhance their understanding of the broader implications of CSR activities on firm performance and reputation (Sallemi & Zouari 2024; Ullah et al. 2019). This expertise enables them to provide strategic guidance and oversight on CSR-related risks and opportunities, thereby influencing the extent and quality of CSR disclosure in corporate reports (Ullah et al. 2019).

Moreover, separating roles between the board chair and the CEO is instrumental in promoting ethical decision-making and accountability, which are fundamental aspects of CSR (Yilmaz et al. 2022). When these roles are distinct, it reduces the concentration of power and ensures that decisions related to CSR initiatives undergo rigorous scrutiny and oversight by independent parties (Rahi et al. 2024).

In essence, the strength of CG mechanisms significantly influences the depth and transparency of CSR disclosure within organisations. By fostering transparency, accountability, and ethical conduct, robust governance practices contribute to effectively articulating and communicating CSR initiatives to stakeholders, ultimately enhancing organisational reputation and legitimacy (Baklouti 2022). Consequently, companies with strong CG structures are more likely to engage in meaningful CSR disclosure practices, reflecting their commitment to sustainability and responsible business conduct. Thus, an overall CG score is calculated based on the study by Wan Abdullah et al. (2013, 2015) and Mohd Zain et al. (2023; 2021) for the CG characteristics of takaful companies (the score will be subsequently referred to as CG strength); hence, the following hypothesis:

H₁ There is a significant positive association between CG strength and voluntary CSR disclosure for takaful operators.

SHARI'AH SUPERVISORY BOARD STRENGTH

The SSB is a cornerstone of governance in takaful companies, ensuring alignment with Islamic principles and accountability as embedded within stakeholder theory. Its independence is critical to prevent undue influence from managers, BODs, or shareholders, enabling effective oversight of compliance with AAOIFI standards (Grassa 2015; Hussain et al. 2016; Mohd Zain & Wan Abdullah 2024). This study examines how SSB strength influences voluntary CSR disclosure, focusing on three key characteristics: size, financial expertise, and cross memberships. These traits determine the SSB's capacity to guide CSR initiatives and enhance transparency, offering insights into governance dynamics unique to Islamic finance.

SSB size significantly affects its oversight of CSR activities. Larger boards bring diverse expertise and perspectives, improving guidance on Shari'ah-compliant CSR initiatives and potentially increasing voluntary disclosure (Ajili & Bouri 2018; Nomran et al. 2018). Financial expertise among SSB members is equally vital, enabling them to evaluate CSR efforts' economic viability and alignment with Islamic principles, thus enhancing disclosure quality (El-Halaby & Hussainey 2016; Mohd Zain & Wan Abdullah 2024). However, cross memberships where members serve on multiple boards can compromise independence, raising conflicts of interest that may weaken impartial oversight and reduce transparency (Mohd Zain et al. 2021; Nomran et al. 2018). This study argues that financially adept SSB members foster deeper deliberation on Shari'ah compliance and sustainability, promoting adherence to AAOIFI Governance Standards for CSR disclosure. Using a methodology akin to Wan Abdullah et al. (2015) and Mohd Zain et al. (2021), an SSB score based on these characteristics quantifies their impact.

The influence of SSB strength on CSR disclosure varies across regulatory and cultural contexts. In regions with strict oversight and a focus on ethical conduct, SSB characteristics have a stronger effect on disclosure practices, whereas lax enforcement or cultures favouring discretion may diminish this impact. By synthesising existing literature, this study deepens understanding of how SSB traits drive CSR transparency in takaful firms. It suggests that incorporating members

with financial backgrounds enhances awareness of disclosure's importance, encouraging voluntary adoption of AAOIFI standards. These findings have practical implications: takaful operators should prioritise SSB independence and expertise, while regulators could strengthen frameworks to support transparency. Future research could explore additional factors, such as cultural norms or regulatory evolution, to further refine these insights. Ultimately, a robust SSB bolsters governance, aligning takaful companies with ethical and Shari'ah-compliant disclosure practices, enhancing stakeholder trust and industry credibility. Therefore, the following hypothesis is tested:

H₂ There is a significant positive association between SSB strength and voluntary CSR disclosure for takaful operators.

SOCIETAL VARIABLE FACTORS

Societal factors significantly influence how takaful companies that offer Islamic insurance approach voluntary disclosure. These factors include social, cultural, and political elements that shape transparency practices. A key driver is the level of political rights and civil liberties in a society. In environments with strong freedoms, stakeholders, such as customers and investors, expect high transparency and accountability. This pushes takaful firms to share more information voluntarily to meet ethical standards and societal demands, fostering a culture of openness and participation (Abozaid & Khateeb 2023).

The legal system also plays a vital role. Countries with robust legal frameworks and strict enforcement encourage transparency by prioritising investor protection and clear disclosure rules (La Porta et al. 1998). In such settings, takaful companies are motivated to enhance voluntary disclosure to comply with regulations and minimise legal risks. A strong legal environment reinforces accountability, encouraging comprehensive reporting.

Additionally, societal attitudes toward CG and ethical behavior shape disclosure practices. In cultures that value integrity and social responsibility, stakeholders demand transparency to ensure ethical operations and societal benefits (Jensen 1993). This pressure drives takaful firms to disclose more information voluntarily, demonstrating their commitment to ethical standards. Political rights, legal systems, and cultural norms collectively influence these practices (Mohd Zain & Wan Abdullah 2024).

By addressing these societal factors, takaful companies can improve transparency, build stakeholder trust, and enhance industry credibility. Clear and voluntary disclosure aligns with societal expectations, strengthens accountability, and supports ethical business practices, benefiting companies and communities.

POLITICAL RIGHTS AND CIVIL REPRESSION

Political rights and civil repression significantly influence voluntary disclosure in takaful companies. Political rights, defined as the freedom to engage in political processes and hold governments accountable (Freedom House 2014), encourage transparency. In societies with strong political rights, takaful companies face pressure from stakeholders to disclose information voluntarily, aligning with ethical standards (La Porta et al. 1998). In contrast, civil repression and suppression of individual freedoms restrict dissent and information access. Companies may limit disclosure to avoid risks like government reprisals and hindering transparency in such settings.

The balance between political rights and civil repression shapes disclosure behaviour. In freer societies, takaful companies are more likely to disclose voluntarily to prove accountability (Mohd Zain et al. 2021). However, in repressive environments, disclosure decreases to minimise risks. Research by Madi et al. (2015) and Albassam and Ntim (2017) highlights how socio-political factors drive these differences. Companies in countries with greater freedoms and less repression tend to follow AAOIFI governance standards more closely. Understanding these dynamics helps operators adapt, while policymakers can enhance transparency by fostering accountable governance.

H₃ There is a significant association between political rights and civil repression and voluntary CSR disclosure for takaful operators.

LEGAL SYSTEM

A country's legal system is a critical societal variable that profoundly influences the voluntary disclosure practices of takaful companies. A well-developed legal framework provides a foundation for transparency, accountability, and investor protection within the corporate sector (La Porta et al. 1998). Countries with strong legal systems typically have robust regulatory bodies and enforcement mechanisms that establish clear disclosure requirements for companies, including takaful operators.

In such environments, takaful companies are compelled to adhere to stringent disclosure standards to comply with legal mandates and mitigate legal risks. Failure to disclose material information or comply with regulatory requirements can result in legal sanctions, fines, or reputational damage, prompting takaful operators to prioritise transparency in their disclosure practices (Laili et al. 2023).

Conversely, takaful companies may face fewer legal constraints on their disclosure practices in jurisdictions where the legal system is underdeveloped or lacks effective enforcement mechanisms. In such contexts, the incentive to disclose

information voluntarily may be diminished as companies perceive fewer repercussions for non-compliance with disclosure standards (La Porta et al. 1998).

Furthermore, the legal system facilitates investor confidence and fosters trust in the takaful industry. Investors, including policyholders and shareholders, rely on legal protections and remedies to safeguard their interests and hold companies accountable for their actions (La Porta et al. 1998). A transparent and well-regulated legal framework enhances investor confidence by assuring that companies are subject to oversight and accountability mechanisms.

Overall, the legal system profoundly shapes the voluntary disclosure practices of takaful companies by establishing the regulatory environment and enforcement mechanisms within which they operate. By adhering to legal requirements and promoting transparency, takaful operators can enhance investor confidence, strengthen regulatory compliance, and foster trust in the industry. We expect companies operating in common law jurisdictions to demonstrate higher disclosure levels than those in civil law jurisdictions.

H₄ There is a significant association between the legal system and voluntary CSR disclosure for takaful operators.

CONTROL VARIABLE

The size of takaful companies is a significant factor that can influence their voluntary CSR disclosure practices. Takaful companies vary in size, with some operating as small-scale entities serving niche markets while others are large-scale organisations with extensive operations and a broad customer base. The size of a takaful company can impact its resources, capabilities, and motivations for engaging in voluntary disclosure.

The size of takaful companies is a key determinant of their voluntary CSR disclosure practices. Larger takaful operators typically possess greater financial, human, and technological resources, enabling them to invest in structured disclosure systems and dedicated departments for corporate communications, compliance, and stakeholder engagement (Lang & Lundholm 2000). These firms are also subject to heightened scrutiny from regulators, investors, and the public, which increases the incentive to adopt transparent practices to enhance reputation, build stakeholder trust, and attract investment (Khatib et al. 2022).

In contrast, smaller takaful companies often face resource constraints that limit their capacity to engage in comprehensive voluntary disclosure. With fewer personnel and less developed infrastructure, these firms may prioritise operational needs over non-mandatory reporting (Albassam & Ntim 2017). Moreover, they may operate in less competitive or less regulated environments, facing reduced pressure to disclose additional information.

Company size, therefore, shapes not only the ability but also the motivation for voluntary CSR disclosure. Understanding this relationship is important for stakeholders when evaluating the transparency and accountability of takaful firms. It also highlights the need for tailored regulatory and capacity-building approaches that consider firms' varying capabilities based on their size.

RESEARCH METHOD AND DESIGN

The research will utilise the content analysis method to investigate CSR disclosure by takaful companies. Bryman and Bell (2007) describe content analysis as a systematic and replicable approach to analysing documents and texts by quantifying their content based on predetermined categories. This method is suitable for this study as it has been commonly used in prior research on disclosures by IFIs (Haniffa & Hudaib 2007). This study conducted a content analysis of the annual reports to identify and categorise the voluntary disclosures made by takaful companies according to the coding framework. This involves carefully reading the reports and extracting relevant information related to CSR practices, governance mechanisms, and adherence to AAOIFI standards. The quantifying the extent and nature of voluntary disclosures across the sample of takaful companies. This may involve measuring the frequency, depth, and specificity of disclosures in relation to AAOIFI Governance Standards No. 7. Mandatory disclosure refers to information that companies are required to disclose according to standards, rules, and guidelines, while voluntary disclosure encompasses additional information beyond mandatory requirements (Al-Sulaiti et al. 2018). The predefined categories for analysis will align with the disclosure requirements specified in AAOIFI Governance Standard No. 7: Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions.

SAMPLE SELECTION AND TEST PERIOD

The population for this study consists of all takaful companies located in the SEA and GCC regions. The initial list of takaful companies was sourced from the AlHuda Centre of Islamic Banking and Economics website (<https://www.alhudacibe.com/tcw.php>), which indicated a total of 86 takaful companies in these regions, with 17 in the SEA region and 69 in the GCC. Subsequently, this list was cross-referenced with information provided by the central banks in each country and the ASEAN Insurance Directory published by Asia Insurance Review. Following the initial screening process, the list was narrowed down to 55 companies, comprising 17 in the SEA region and 38 in the GCC.

The selection of the SEA and GCC regions for this study is based on their prominence in Islamic finance. These regions are pioneers in establishing Islamic financial institutions (IFIs) and have seen widespread adoption, adaptation, or recommendation of AAOIFI standards. Given their significance in the Islamic finance landscape, these regions provide an ideal setting for examining CSR disclosure practices among takaful companies.

Selecting 2021 as the sample year for studying disclosure practices of takaful companies in the SEA and GCC regions is justified by the industry's significant growth that year, recent and complete data availability, and the consistency offered by a cross-sectional design. Additionally, this choice captures disclosure trends during a transformative post-pandemic period, providing valuable insights into how these companies adapted their communication strategies. This makes 2021 an ideal year to enhance the study's relevance and deepen understanding of the evolving Islamic insurance landscape. Only annual reports available in English and accessible through the companies' official websites are included in the study sample to ensure practicality within time and cost constraints.

DESCRIPTION OF DEPENDENT, INDEPENDENT AND CONTROL VARIABLES USED IN THIS STUDY

The focus of this study is to investigate the impact of various independent variables on CSR disclosure, which serves as the dependent variable and is sourced from annual reports. Voluntary CSR disclosure is measured by calculating the proportion of voluntary CSR items disclosed out of the total possible voluntary CSR items as specified in AAOIFI Governance Standard No. 7, providing a clear dependent variable for research in Islamic finance. This method, supported by studies like “Social disclosure: compliance of Islamic banks to governance standards No. 7 of AAOIFI (2015)”, ensures that the measurement captures discretionary reporting efforts, offering insights into transparency and accountability in takaful companies. The approach is standard in the field, though slight variations in interpretation (e.g., including mandatory items in the denominator) may exist, highlighting the need for clarity in research design. Specifically, four independent variables are under scrutiny: (i) Corporate Governance (CG) strength, (ii) Shari’ah Supervisory Board (SSB) strength, (iii) Political rights and civil liberties, and (iv) the legal system. The size of Takaful companies is included as a control variable to account for potential variations arising from the organisational scale.

Each variable is selected based on its established significance in prior research and relevance to CSR disclosure's governance and socio-political context. For instance, CG strength is pivotal in ensuring transparency and accountability in decision-making, aligning with the findings of Mohd Zain et al. (2023) and Mohd Zain and Wan Abdullah (2024). SSB's strength is included in capturing the Shari’ah compliance dimension unique to Islamic financial institutions, as Nomran and Haron (2020) highlighted. Political rights and civil liberties are considered to explore the influence of socio-political environments, drawing on studies like Williams (1999), which emphasise the role of political freedom in fostering transparency. Finally, the legal system variable investigates the impact of regulatory frameworks on disclosure practices, building on the foundational work of La Porta et al. (1998).

This study aims to contribute new knowledge by synthesising these variables into a cohesive framework, providing insights into how governance mechanisms and societal factors interact to influence CSR disclosure practices in the Takaful industry. Unlike prior studies, which often focus on isolated aspects, this paper integrates governance, legal, and socio-political perspectives to analyse comprehensively.

Ordinary Least Squares (OLS) regression will be employed to analyse the relationship between the dependent and independent variables. As Tabachnick and Fidell (2014) highlighted, multivariate analysis is deemed more suitable for evaluating the collective impact of various company characteristics on the extent of voluntary disclosure. The regression equation, structured accordingly, aims to unveil the nuanced dynamics between these variables and CSR disclosure levels. The regression equation is modelled as follows:

$$VCSR_D = \alpha + \beta_1 CG_Strength + \beta_2 SSB_Strength + \beta_3 PRCL + \beta_4 LEGAL + \beta_5 SIZE + E1$$

The variables are defined in Appendix A. The subsequent sections present the results and discuss their implications for theory and practice.

RESULTS AND DISCUSSION

THE NATURE AND EXTENT OF VOLUNTARY CSR DISCLOSURE IN THE TAKAFUL COMPANIES

Table 1 provides a comparative overview of voluntary CSR disclosure among takaful companies in Southeast Asia (SEA) and the Gulf Cooperation Council (GCC) regions and across individual countries. The average disclosure rate for all companies in the study is 66.48%, with consistent minimum and maximum values of 57.00% and 73.00%, respectively. Regionally, GCC companies show a higher mean disclosure (67.89%) compared to those in SEA (63.33%).

Country-level analysis reveals that Bahrain and Oman lead with the highest average disclosure at 70.00%. This is likely due to their proactive and voluntary adoption of AAOIFI governance standards, especially regarding Shari’ah compliance and accounting practices (AAOIFI 2015). Islamic financial institutions in Bahrain, Qatar, and Oman have demonstrated strong commitments to structured CSR reporting, even in the absence of mandatory requirements.

In contrast, Brunei reports the lowest average disclosure at 56.67%, based on a single takaful operator. This lower engagement reflects limited exposure to international CSR frameworks and a continued reliance on traditional business models that place less emphasis on transparency and accountability (Ministry of Finance Brunei Darussalam 2012) (Ministry of Finance Brunei Darussalam, 2012; Bodhanwala & Bodhanwala, 2023). These findings highlight regional disparities in CSR practices, driven by regulatory frameworks, industry norms, and institutional awareness within the takaful sector (Bodhanwala & Bodhanwala 2023).

TABLE 1. The nature and extent of voluntary Csr disclosure

Panel A: All Countries	Panel B: Regions	Panel C: SEA	Panel D: GCC
Minimum: 57.00	SEA (N=17)	Malaysia (N=12)	Bahrain (N=5)
Maximum: 73.00	Minimum: 57.00	Minimum: 57.00	Minimum: 67.00
Mean:66.48	Maximum: 73.00	Maximum: 73.00	Maximum: 73.00
Standard Deviation: 0.05267	Mean disclosure: 63.33	Mean disclosure: 65.28	Mean disclosure: 70.00
	GCC (N=38)	Indonesia (N=2)	Kuwait (N=9)
	Minimum: 57.00	Minimum: 60.00	Minimum: 67.00
	Maximum: 73.00	Maximum: 60.00	Maximum: 70.00
	Mean disclosure: 67.89	Mean disclosure: 60.00	Mean disclosure: 69.26
		Brunei (N=1)	Oman (N=2)
		Minimum: 57.00	Minimum: 67.00
		Maximum: 57.00	Maximum: 73.00
		Mean disclosure: 56.67	Mean disclosure: 70.00
		Thailand (N=2)	Qatar (N=4)
		Minimum: 57.00	Minimum: 57.00
		Maximum: 60.00	Maximum: 70.00
		Mean disclosure: 58.33	Mean disclosure: 63.33

Table 2 presents descriptive statistics for the independent variables used in the CSR disclosure model, covering all 55 takaful companies included in the sample. The analysis considers that not all countries require adherence to AAOIFI Governance Standards for Islamic Financial Institutions (GSIFI) No. 7.

The findings indicate that the mean CG strength is 3.40, with values ranging from one to six. On average, the board size consists of seven members, while the audit committee (AC) typically has three members. Independent non-executive directors represent approximately 61% of board members and 65% of AC members, reflecting a significant level of independence in governance structures. However, the proportion of AC members with expertise in accounting, banking, economics, or finance remains relatively modest, averaging around 42%.

A key governance feature observed across all takaful companies is the clear separation of roles between the CEO and the board chair, ensuring a distinct division of responsibilities. In line with Shari'ah compliance, takaful companies maintain SSBs, typically comprising an average of three members. Notably, about 57% of SSB members also serve in other financial institutions, but the percentage of those with expertise in accounting, banking, economics, or finance is lower, at around 33%.

Additionally, most takaful companies in the study operate in countries with relatively low political and civil repression levels, as reflected in an average score of 10.63. A significant proportion of these companies, 56.36% of the sample, are also based in countries with code law. These descriptive statistics provide valuable insights into the governance structures and contextual conditions shaping CSR disclosure practices in takaful companies, laying the groundwork for further analysis.

TABLE 2. Descriptive statistics for the entire variable in this study

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CG Strength	55	1.0	6.00	3.40	1.37
BOD Size	55	5.0	14.00	7.52	2.07
BOD Independence	55	0	0.90	0.61	0.27
AC Size	55	0	6.00	3.12	1.63
AC Expertise	55	0	1.00	0.42	0.25
AC Independence	55	0	1.00	0.65	0.34
SSB Strength	55	0	3.00	1.21	0.97
SSB Size	55	0	7.00	3.30	1.80
SSB Expertise	55	0	1.00	0.31	0.24
SSB Committee Membership	55	0	1.00	0.57	0.42
Asset Size (USD)	55	1,575,848.77	58,815,975,764.00	2,634,365,877.00	8,873,164,901.00
PRCL	55	6.00	14.00	10.63	2.58
Variable	Coding	No. of firms in the sample		Percentage of sample	
<i>INDCHAIR</i>	0	0		0	
	1	55		100	
<i>Legal System</i>	0	24		43.64	
	1	31		56.36	

UNIVARIATE TESTING- THE MANN-WHITNEY TEST ANALYSIS FOR THE VOLUNTARY CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

Table 3 displays the outcomes of the Mann-Whitney U test, which was executed to compare voluntary CSR disclosures between the SEA and GCC regions. The test unveiled a statistically notable distinction ($U=165.50$; $Z=-2.944$, $p=.003<.05$). The mean rank of voluntary CSR disclosure in the SEA region stands at 18.74, while takaful companies in the GCC region exhibit a higher mean rank of 32.14. This variance might be ascribed to regulatory considerations, given that countries like Bahrain, Oman, Qatar, and the Qatar Financial Centre are obligated to adhere to the AAOIFI accounting standards, potentially influencing heightened voluntary CSR disclosures (AAOIFI 2015).

Furthermore, the variation in voluntary CSR disclosure levels between the SEA and GCC regions could be linked to differences in Islamic jurisprudence. The presence of diverse schools of thought, such as *Hanafi*, *Shafi'i*, *Hanbali*, and *Maliki*, among others, may contribute to varying interpretations and implementations of voluntary CSR practices within takaful companies across these regions. These findings underscore the importance of considering regional regulatory frameworks and theological perspectives when analysing voluntary CSR disclosure practices in the Islamic finance industry (Nomran & Haron 2020).

TABLE 3. Univariate Testing - Mann-Whitney Test Analysis of the Voluntary CSR Disclosure between the SEA and the GCC Regions

Variable	Regions	N	Mean Rank	Sum of Rank	U	Z	p
Voluntary CSR disclosure	SEA	17	18.74	318.50	165.50	-2.944	0.003**
	GCC	38	32.14	1221.50			

Note:

** Significant at 1 per cent level (two-tailed)

MULTIPLE REGRESSION ANALYSIS

A multiple regression analysis was conducted using IBM SPSS Statistics 29 to assess the extent of voluntary CSR disclosure among takaful companies. Before performing the analysis, several assumptions were evaluated to ensure the validity of the results. First, multicollinearity was assessed by examining correlation coefficients among explanatory variables below 0.80, indicating no significant multicollinearity (Field 2017). Additionally, variance inflation factors (VIF) were all below 10, further confirming the absence of multicollinearity concerns.

Residual analysis was performed to evaluate linearity and homoscedasticity. The normal probability plot (p-plot) of regression indicated that residuals were normally distributed, as evidenced by clustering points along the diagonal line. Furthermore, a scatterplot of standardised residuals against predicted values showed no discernible pattern, confirming that the assumptions of normality, linearity, and homoscedasticity were met. These findings validate the reliability of the regression results and support a meaningful interpretation of the relationship between the explanatory variables and voluntary CSR disclosure among takaful companies.

Before estimating the multiple regression models, the data were examined for deviations from normality and outliers. The Shapiro-Wilk test confirmed normality ($p > 0.05$) for several variables, including *VCSRINDEX* and *LOGASSET*. However, variables that did not meet normality assumptions were recoded as dichotomous variables to correct distributional issues even after transformations (log, square root, inverse).

The results of the regression analysis, presented in Table 4, indicate that the analysis of variance (ANOVA) is significant at the 5% level, with an adjusted R^2 of 0.119. Among the key findings, CG strength exhibits a significant positive association with voluntary CSR disclosure at the 5% significance level, supporting H_1 . This finding highlights the crucial role of CG in promoting transparency and accountability within financial reporting, consistent with previous studies (Mohd Zain et al. 2023; Mohd Zain et al. 2021).

Contrary to expectations, SSB strength does not show a significant positive association with voluntary CSR disclosure, failing to support H_2 at the conventional 5% significance level. This unexpected outcome suggests that SSBs may not be directly involved in financial reporting decisions, potentially due to differences in institutional governance frameworks across jurisdictions. The implementation of AAOIFI governance standards varies significantly, with only certain countries mandating adherence to Shari'ah review and internal compliance standards (AAOIFI 2015). This result underscores the need for a deeper understanding of SSB roles in shaping CSR disclosure within Islamic financial institutions (Bukair & Abdul Rahman 2015; Mohd Zain et al. 2021; Wan Abdullah et al. 2015).

On the other hand, *PRCL* is found to have a significant negative impact on voluntary CSR disclosure, supporting H_3 at the 5% significance level. Takaful companies in countries with greater political and civil freedoms tend to disclose more extensive voluntary CSR information, aligning with findings from Farook et al. (2011) and Williams (1999). These studies emphasise how political rights and regulatory environments influence corporate disclosure practices, reinforcing the political economy theory as a framework for understanding CSR disclosure dynamics.

The legal system also plays a significant role in CSR disclosure. The findings indicate that takaful companies operating in common law jurisdictions exhibit higher levels of voluntary CSR disclosure than those in code law countries, supporting H_4 at the 5% significance level. This result aligns with La Porta et al. (1998) research, highlighting differences

in accounting standards, financial reporting quality, and enforcement mechanisms between common law and code law jurisdictions. Countries following English common law systems typically demonstrate more developed financial markets, stronger CG frameworks, and greater transparency than their code law counterparts.

The findings underscore the complex interplay between CG, regulatory environments, and CSR disclosure within takaful companies. While CG strength and political freedoms positively influence CSR disclosure, SSB strength appears to play a less significant role, potentially due to jurisdictional variations in regulatory adoption. These results highlight the need for a more nuanced approach to understanding how institutional, legal, and political factors shape CSR disclosure in Islamic financial institutions.

TABLE 4. Regression analysis of determinants of CSR disclosure

variable	Predicted sign	N	Coefficients	t-statistics	VIF
Constant		55	-0.144	-3.410	
<i>CG Strength</i>	+	55	0.008	2.139**	1.032
<i>SSB Strength</i>	+	55	-0.001	-0.137	1.170
<i>Asset Size (USD)</i>	+	55	-0.007	-1.386	1.077
<i>PRCL</i>	-	55	-0.025	-2.361**	1.349
<i>Legal system</i>	-	55	-0.027	-2.668**	1.457
Std. error	0.03244				
F-value	2.915				
Sig. F	0.012				
Adj. R Square	0.119				

Note:

** Significant at 5 per cent level (two-tailed)

CONCLUSION

In the growing Islamic finance sector, particularly within takaful operations, voluntary CSR disclosure is critical for promoting ethical conduct and fostering stakeholder trust. This study demonstrates that strong CG practices significantly enhance transparency and accountability. A positive correlation is observed between the strength of CG mechanisms and the extent of voluntary CSR disclosure, as measured by the proportion of disclosed items relative to the total possible voluntary items outlined in AAOIFI Governance Standard No. 7. However, the role of the SSB appears limited, suggesting that its influence on disclosure practices may be more symbolic than substantive.

Societal factors, including political rights, legal systems, and civil liberties, also play a crucial role in shaping disclosure behaviours. Notably, more restrictive regulatory environments are sometimes associated with lower levels of transparency, possibly due to increased compliance burdens or limited institutional flexibility (Alam et al. 2023). These findings are consistent with stakeholder theory, which posits that firms voluntarily disclose CSR information to meet stakeholder expectations and legitimise their operations. This study extends the theory by highlighting the combined influence of governance structures and societal conditions on voluntary disclosure within an Islamic finance context.

From a practical standpoint, the findings suggest that takaful operators should strengthen their CG frameworks by enhancing board independence, audit committee effectiveness, and decision-making transparency in alignment with AAOIFI standards. Moreover, the capacity and influence of SSBs should be improved through targeted training and resource allocation, enabling them to engage more meaningfully with CSR matters. Policymakers are encouraged to introduce clear regulatory guidelines and offer incentives that promote transparency while maintaining room for innovation. Stakeholder engagement, particularly with policyholders, shareholders, and local communities, should be prioritised to align disclosures with stakeholder expectations and build long-term trust.

Despite its contributions, the study is not without limitations. Using cross-sectional and quantitative data restricts insights into temporal trends and may overlook qualitative factors such as organisational culture or managerial motivations. Consequently, the influence of static governance features may be overstated. Future research should consider longitudinal and qualitative approaches, including case studies and interviews, to explore underlying motivations and contextual factors. Furthermore, examining additional variables such as market dynamics, stakeholder activism, and cultural norms or conducting comparative studies across Islamic finance sub-sectors could provide a more holistic understanding of CSR disclosure practices.

ACKNOWLEDGEMENTS

The authors wish to express their gratitude to the Ministry of Higher Education (MOHE) Malaysia for funding this research project through the Fundamental Research Grant Scheme (FRGS) FRGS/1/2023/SS01/UNISZA/02/9 and Universiti Sultan Zainal Abidin for the administrative support.

REFERENCES

- AAOIFI. 2015. *Accounting, Auditing and Governance Standards. Accounting and Auditing Organisation for Islamic Financial Institutions*. Manama, Bahrain.
- Abozaid, A. & Khateeb, S.H. 2023. *Tools and Conditions for Achieving Sustainable Development in Islamic Finance*. 41–

58. Palgrave Macmillan, Cham.:

- Ajili, H. & Bouri, A. 2018. Assessing the moderating effect of Shariah Board on the relationship between financial performance and accounting disclosure. *Managerial Finance* 44(5): 570–589.
- Al-Sulaiti, J., Ousama, A.A., Hamammi, H., Ousama & Hamammi, H. 2018. The compliance of disclosure with AAOIFI financial accounting standards: A comparison between Bahrain and Qatar Islamic banks. *Journal of Islamic Accounting and Business Research* 9(4): 549–566.
- Alam, A., Fianto, B.A., Ratnasari, R.T., Ahmi, A. & Handayani, F.P. 2023. History and development of takaful research: A bibliometric review. *SAGE Open* 13(3).
- Albassam, W.M. & Ntim, C.G. 2017. The effect of Islamic values on voluntary corporate governance disclosure: The case of Saudi-listed firms. *Journal of Islamic Accounting and Business Research* 8(2): 182–202.
- Baklouti, I. 2022. Is the Sharia supervisory board a friend or an enemy of Islamic banks? *Journal of Islamic Marketing* 13(2): 526–541.
- Bell, E. & Bryman, A. 2007. The ethics of management research: An exploratory content analysis. *British Journal of Management* 18(1): 63–77.
- BenSaid, Y.R. 2023. Shariah governance and takaful financial performance: The case of listed takaful insurances. *Journal of Islamic Accounting and Business Research* ahead-of-p(ahead-of-print).
- Bodhanwala, S. & Bodhanwala, R. 2023. Environmental, social and governance performance: Influence on market value in the COVID-19 crisis. *Management Decision* 61(8): 2442–2466.
- Bukair, A.A. & Abdul Rahman, A. 2015. The effect of the board of directors' characteristics on corporate social responsibility disclosure by islamic banks. *Journal of Management Research* 7(2): 506–519.
- Danica, A. 2025. Takaful Ikhlas General Berhad earns accolade at Malaysia Management Excellence Awards 2024. <https://asianbusinessreview.com/co-written-partner/event-news/takaful-ikhlas-general-berhad-earns-accolade-malaysia-management-excellence-awards-2024>.
- El-Halaby, S. & Hussainey, K. 2016. Determinants of compliance with AAOIFI standards by Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management* 9(1): 143–168.
- Eldaia, M. & Hanefah, M. 2023. Impact of audit committee effectiveness on malaysian takaful performance, and moderating role of shariah committee quality. In *Lecture Notes in Networks and Systems*. 757–769. Emerald Publishing.:
- Farook, S., Hassan, K. & Lanis, R. 2011. Determinants of corporate social responsibility disclosure: The case of Islamic banks. *Journal of Islamic Accounting and Business Research* 2(2): 114–141.
- Field, A. 2017. *Discovering Statistics Using IBM SPSS Statistics*. SAGE Publications Ltd. SAGE Publications Ltd.:
- Freedom House. 2014. *Freedom in the World 2014: The Annual Survey of Political Rights and Civil Liberties*. A. Puddington & A. Piano (Pnyt.) New York.
- Haniffa, R. & Hudaib, M. 2007. Exploring the ethical identity of Islamic Banks via communication in annual reports. *Journal of Business Ethics* 76(1): 97–116.
- Harinderan, K. 2024. Prudential BSN Raises Raya Spirit Celebrating Nature, Sustaining Life.
- Islamic Corporation for the Development of the Private Sector (ICD). 2023. Launch of icd-lseg islamic finance development report 2023: navigating uncertainty.
- Jensen, M.C. 1993. The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance* 48(3): 831–880.
- Khatib, S.F.A., Abdullah, D.F., Elamer, A. & Hazaea, S.A. 2022. The development of corporate governance literature in Malaysia: a systematic literature review and research agenda. *Corporate Governance: The International Journal of Business in Society* 22(5): 1026–1053.
- Laili, N., Ghani, A., Ariffin, N.M., Rahim, A. & Rahman, A. 2023. The extent of mandatory and voluntary Shariah compliance disclosure: evidence from Malaysian Islamic financial institutions. *Journal of Islamic Accounting and Business Research* 15(3): 443–465.
- Lang, M.H. & Lundholm, R.J. 2000. Voluntary disclosure and equity offerings: Reducing information asymmetry or hyping the stock? *Contemporary Accounting Research* 17(4): 623–662.
- Madi, H.K., Ishak, Z. & Manaf, N.A.A. 2015. The impact of audit committee characteristics on corporate voluntary disclosure. *Procedia - Social and Behavioral Sciences* 164: 486–492.
- Mejri, M., Ben Othman, H., Abdou, H.A. & Hussainey, K. 2023. Comparing the value-relevance of AAOIFI versus IFRS accounting numbers in the Takaful industry. *Journal of Islamic Accounting and Business Research* 14(7): 1065–1087.
- Ministry of Finance Brunei Darussalam. 2012. Full Adoption of International Financial Reporting Standards in Brunei By 2014.
- Mohd Zain, A.F. & Wan Abdullah, A.W. 2024. Shariah Governance Disclosure : A key to financial success through governance mechanisms in islamic banks. *Asian Journal of Business and Accounting* 17(2): 71–111.
- Mohd Zain, F.A., Muda, W.A.W.A., Muhamad, S., Tajuddin, S.A.F.S.A. & Abdullah, H. 2023. Strengthening governance mechanisms and corporate social responsibility disclosure: Drivers of performance in Islamic banks. *Journal of Asian Scientific Research* 13(4): 149–167.

- Mohd Zain, F.A., Wan Abdullah, W.A. & Percy, M. 2021. Voluntary adoption of AAOIFI disclosure standards for takaful operators: the role of governance. *Journal of Islamic Accounting and Business Research* 12(4): 593–622.
- Muhamat, A.A., Zulkifli, A.F., Ibrahim, M.A., Sulaiman, S., Subramaniam, G., Mohamad, S. & Suzuki, Y. 2022. Realising the corporate social performance (CSP) of takaful (Islamic Insurance) operators through drone-assisted disaster victim identification (DVI). *Sustainability (Switzerland)* 14(9).
- Nazri, M.A., Omar, N.A., Aman, A., Ayob, A.H. & Ramli, N.A. 2020. Corporate social responsibility and business performance in Takaful agencies: The moderating role of objective environment. *Sustainability (Switzerland)* 12(20): 1–18.
- Nomran, N.M. & Haron, R. 2020. A systematic literature review on Shari'ah governance mechanism and firm performance in Islamic banking. *Islamic Economic Studies* 27(2): 91–123.
- Nomran, N.M., Haron, R. & Hassan, R. 2018. Shari'ah supervisory board characteristics effects on islamic banks' performance: Evidence from Malaysia. *International Journal of Bank Marketing* 36(2): 290–304.
- Platonova, E., Asutay, M., Dixon, R. & Mohammad, S. 2018. The Impact of corporate social responsibility disclosure on financial performance: Evidence from the GCC islamic banking sector. *Journal of Business Ethics* 151(2): 451–471.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R.W. 1998. Law and Finance. *Journal of Political Economy* 106(6): 1113–1155.
- Rahi, A.F., Johansson, J., Blomkvist, M. & Hartwig, F. 2024. Corporate sustainability and financial performance: A hybrid literature review. John Wiley & Sons, Ltd.
- Sallemi, N. & Zouari, G. 2023. Shariah board and takaful performance: Mediating role of corporate social responsibility. *International Review of Economics* 71(2): 1–30.
- Sallemi, N. & Zouari, G. 2024. Effect of external corporate factors on takaful performance. *Asian Journal of Accounting Research* 9(3): 217–228.
- Singh, A. & Chakraborty, M. 2021. Does CSR disclosure influence financial performance of firms? Evidence from an emerging economy. *Sustainability Accounting, Management and Policy Journal* 12(4): 788–810.
- Tahir, U., Rashid, A. & Khan, A. 2021. Evaluation of contemporary takaful practices from the perspective of Maqasid al-Shariah. *Journal of Islamic Business and Management (JIBM)* 11(02): 296–311.
- Ullah, M.S., Muttakin, M.B. & Khan, A. 2019. Corporate governance and corporate social responsibility disclosures in insurance companies. *International Journal of Accounting and Information Management* 27(2): 284–300.
- Wan Abdullah, W.A., Percy, M. & Stewart, J. 2013. Shari'ah disclosures in Malaysian and Indonesian Islamic banks: The Shari'ah governance system. *Journal of Islamic Accounting and Business Research* 4(2): 100–131.
- Wan Abdullah, W.A., Percy, M. & Stewart, J. 2015. Determinants of Voluntary corporate governance disclosure: evidence from islamic banks in the Southeast Asian and the Gulf Cooperation Council Regions. *Journal of Contemporary Accounting and Economics* 11(3): 262–279.
- Williams, S.M. 1999. Voluntary environmental and social accounting disclosure practices in the Asia-Pacific region: An international empirical test of political economy theory. *The International Journal of Accounting* 34(2): 209–238.
- Yilmaz, M.K., Aksoy, M. & Khan, A. 2022. Moderating role of corporate governance and ownership structure on the relationship of corporate sustainability performance and dividend policy. *Journal of Sustainable Finance and Investment* 14(3): 1–30.

Fahru Azwa Mohd Zain*
 Faculty of Business and Management
 Universiti Sultan Zainal Abidin
 Gong Badak Campus
 21300 Kuala Nerus, Terengganu, MALAYSIA.
 E-mail: fahrumdzain@unisza.edu.my

Wan Amalina Wan Abdullah
 Faculty of Business and Management
 Universiti Sultan Zainal Abidin
 Gong Badak Campus
 21300 Kuala Nerus, Terengganu, MALAYSIA.
 E-mail: amalina@unisza.edu.my

Siti Fariha Muhamad
 Faculty of Entrepreneurship and Business
 Universiti Malaysia Kelantan
 Pengkalan Chepa
 16100 Kota Bharu, Kelantan, MALAYSIA.
 E-mail: fariha@umk.edu.my

Hamdy Abdullah
Faculty of Business and Management
Universiti Sultan Zainal Abidin
Gong Badak Campus
21300 Kuala Nerus, Terengganu, MALAYSIA.
E-mail: hamdy@unisza.edu.my

Sheikh Ahmad Faiz Sheikh Ahmad Tajuddin
Faculty of Business and Management
Universiti Sultan Zainal Abidin
Gong Badak Campus
21300 Kuala Nerus, Terengganu, MALAYSIA.
E-mail: sheikhafaiz@unisza.edu.my

*Corresponding author

APPENDIX A. Measurement of variables

Variable	Measurement
<i>VCSRINDEX</i>	Total voluntary CSR disclosure divided by total possible number of CSR disclosure.
<i>CG_Strength</i>	$BODSIZE + BODINDEP + ACSIZE + ACINDEP + ACEXP + INDCHAIR$ where $BODSIZE = 1$ for number of directors on the board above the median of 7 members, 0 otherwise $BODINDEP = 1$ for percentage of independent non-executive directors on the board of directors (board) above the median of 40.00 per cent members, 0 otherwise $ACSIZE = 1$ for number of directors in the audit committee (AC) above the median of 3 members, 0 otherwise $ACINDEP = 1$ for percentage of independent non-executive directors on the AC above the median of 30.00 percent members, 0 otherwise $ACEXP = 1$ for the percentage of AC members formally trained in accounting, banking, economics or finance above the median of 50 per cent, 0 otherwise $INDCHAIR = 1$ when the CEO and the Chairman of the Board are separate people and 0 otherwise
<i>SSB_Strength</i>	$SSBSIZE + SSBCRMEMB + SSBEXP$ $SSBSIZE = 1$ for the number of SSB members above the median of 3, 0 otherwise $SSBCRMEMB = 1$ for the average number of cross-memberships of the SSB members in institutions offering Islamic financial services above the median of 2.14, 0 otherwise $SSBEXP = 1$ for the number of SSB members formally trained in accounting, banking, economics and finance above the median of 33.33 per cent, 0 otherwise
<i>SIZE</i>	Total assets of the Islamic bank (natural log)
<i>PRCL</i>	Overall combined index scores of political rights and civil repression based on the work of Gastil (1981) and Freedom House (2009) for the given nation: 1 (freedom) to 14 (repression)
<i>Legal System</i>	1 if command law, 0 if code law (Salter and Doupnik, 1992)