Board of Directors, Shariah Committees and Sustainability Commitment of Islamic Banks in Malaysia

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ABSTRACT

This study examined the relationship between board of directors, Shariah committee and sustainability commitment of Islamic banks in Malaysia. Analyses were performed on a sample of 16 Islamic banks in Malaysia from 2017 to 2018, consisting of 11 local and 5 foreign banks. Regression analyses involved characteristics of the board of directors and Shariah committees as the independent variables and sustainability commitment as the dependent variable. Three corporate characteristics (board size, women on the board and Shariah committee) proxy for strategic leadership, while sustainability commitment was based on the framework of the Sustainable Development Goals consisting of economic, social, and environmental dimensions. The results showed that board size was not associated, while women on the board was negatively associated, with the banks' sustainability commitment. Additionally, the Islamic banks with a larger number of members in the Shariah committee had greater sustainability commitment compared to their counterparts. Thus, this study confirms that Shariah committee as an essential factor in achieving the Islamic banks' sustainability commitment goals. The findings suggest more concerted efforts to embed strategic leadership from the top to achieve appropriate levels of effectiveness that can reflect better responses to sustainability commitment issues.

Keywords: Board of Directors, Shariah Committee, Sustainability Commitment, Islamic Banking, Sustainable Banking

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INTRODUCTION

The traditional theory of corporate governance emphasizes the importance of aligning the interests of managers and shareholders (Crifo et al., 2019). In recent periods, apart from protecting the assets and reputation of a company, the board of directors strive on building sustainable values for shareholders as well as other stakeholders that have a vested interest in the company. The United Nations (UN), for example, has established the UN Global Compact Board Program to support the boards of directors in contributing towards sustainability initiatives within their companies (Gonzalez-Perez & Leonard, 2017). A sustainability-oriented board, that consists of directors whose approaches integrate ethical, social and environmental issues, tends to focus on balancing long-term interests by engaging in effective decision making for the sake of the companies (Ionescu & Vilag, 2015). Hence, the directors are motivated to disclose particular information with regard to corporate long term sustainability orientations to display their commitment towards Sustainable Development Goals (SDGs) with the aim of producing long term competitive advantage for their companies. In this study, the board of directors served as a driver to push companies towards creating the nexus between commitment of incorporating SDGs and disclosing of the corporate sustainability agenda.

This study focussed on the sustainability commitment of companies in the banking industry, specifically the Islamic banks which are generally known for their Shariah-compliant business operations and Shariah-based governance framework that ensure the provision of Shariah-compliant financial services. In Malaysia, the corporate governance of Islamic banks is enhanced with the requirement of the Islamic Financial Services Act 2013 for the banks to establish Shariah committees to ensure their affairs are in accordance with Shariah principles. Governance arising from Shariah committees has benefitted the banks in various aspects of corporate performance (Aslam & Haron, 2021; Isa & Lee, 2020; Khalil & Taktak, 2020). Empirical evidence (Meutia & Febrianti, 2017) found that sustainability practices among Islamic banks are still in the early stages, with low sustainability practices and reporting shown by the Islamic financial institutions in Malaysia (Jan et al., 2018). The commitment towards sustainability practices reflect the banks' ethical practices in operations and are in line with the principles of Maqasid Shariah, that no one is left behind in pursuit of prosperity while building a cohesive society (Bank Negara Malaysia, 2018). In this study, the composition of the Shariah committees is posited to be another source of strategic leadership that serves towards establishing corporate sustainability commitment.

This study offers the following contributions. First, our analysis focussed on the Islamic banks to contribute to prior studies on factors that determine corporate sustainability disclosures and practices (Ferrero-Ferrero, Fernández-Izquierdo & Muñoz-Torres, 2016) that often focus on environmentally sensitive industries. Second, the focus on Malaysia offers a perspective of corporate sustainability commitment from an emerging market, to add to the evidence from the developed market (Jan et al., 2018; Hashim et. al., 2015). It is important to assess the efforts of Malaysia that has shown commitments towards SDG 2030, which can be seen from the recently launched Malaysian Shared Prosperity Vision 2030. Third, this study employed the SDGs-focused sustainability practices as a measure of corporate commitment towards SDGs. Our findings do indicate a low level of disclosures on SDGs among the Islamic banks, suggesting the possible challenges to regulators in promoting sustainability practices among Islamic banks.

The paper is structured as follows. In section 2, we review the related literature and develop the hypotheses. Section 3 describes the research design, and sample selection. Section 4 presents the results of the main regression model and Section 5 concludes.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The awareness of the stakeholders about sustainability is significantly rising since the world was shacken by the environmental disaster and the episodes of market turmoil (Hu & Loh, 2018). Companies started to focus on non-financial information towards the operation of the company, which then gave rise to the attention on sustainability disclosure (Mudiyanselage & Swarnapali, 2018). Those that take into account sustainability practices will not only focus on making profit, but consider other aspects of life (Jan et al., 2018). In the context of SDGs, sustainable development is broadly classified into three dimensions; economic resiliency, social empowerment, and environmental regeneration. As shown in Table 1, the focus on sustainability practices is not only limited to economic goals but also for environmental and social matters (Jan et al., 2019; Hassan & Harahap, 2010)

Table 1: Dimensions of Sustainability Commitment

Dimensions of sustainability	SDGs	Core Aspect	Key Examples
Economic Resiliency	SDG 8, SDG 9, SDG 10, SDG 12	Creating strategic guidance for an organization in promoting benefits to mankind	Expand savings, credit, and takaful for small business; promotes sustainable industrialisation; reducing inequality
Social Empowerment	SDG 1, SDG 2, SDG 3, SDG 4, SDG 5, SDG 7	Contribute to all people of all ages to empower social well-being in all stages	Offer direct microcredit and remittance services across various geographical and socioeconomic contexts; gender equality; access to sustainable energy
Environmental Regeneration	SDG 13	Creating strategies to lessen the risk of climate change	Provide takaful schemes that cover natural catastrophes and conduct programmes to improve community resilience towards climate change

Source: Author

Sustainability Commitment in Islamic Financial Institutions

The important features of the Islamic financial institutions' business model are: ethical foundations, products and governance (Aracil, 2019). First, they operate within the underlying ethical governing principle by the Shariah law that emphasizes on integrating moral values within the business context. Second, the feature of differential practices and operations include the prohibition of both riba (interest) and haram (unlawful) operations, whereby they abstain from every evil such as gambling and being spendthrifts (Aliyu et al., 2017). Third, the governance structure includes the Shariah board that serve in ensuring the credibility of these organizations. From the Shariah precepts, the economic dimension of a business intertwines with the social and ethical dimensions, upon which the profit-oriented business operations must adhere to the fundamental principles of Shariah including justice, honesty, and protection of public interest.

Economic Resiliency

Rashid & Nishat (2009) stated that there is a need for the evaluation of economic sustainability in Islamic financial institutions. This is because economic growth is the main driver of sustainable development as it directly impacts the business activities of companies. According to Jan et al., (2018), economic stability highly depends on the working operations of Islamic financial institutions, which may collapse if companies ignore the importance of the economic system such as by neglecting the welfare of employees, suppliers of the companies, and local communities. The business operations of the Islamic banks should be Shariah-compliant in which every transaction must be carefully screened in order to avoid prohibited transactions. By being fully committed in ensuring Shariah-compliant financial products, stakeholders and investors will gain the confidence to invest in Islamic banks, and eventually contribute towards the economic growth of the banks (Amran et al., 2017).

Social Empowerment

Social aspects play an important role for any company to sustain its position in the marketplace. Social empowerment is about good work practices, the protection of human rights and good occupational health, and safety (Jan et al., 2019). As stated by Hashim et. al., (2015), companies must attend to environmental, social, and profit matters in their mission and vision in order to do well in sustainable development. Social sustainability involves an organization's impact on the social systems within which it operates. Hassan & Harahap (2010) indicated that the social sustainability of Malaysian Islamic financial institutions is necessary to uphold the decent labour work practices and to promote human rights in society. Dusuki & Abdullah (2007) stated that Islamic financial institutions need to assist society by granting scholarships for Islamic Fiqh studies as providing scholarship helps them to promote shariah principles in society. Accordingly, these practices will positively affect the social sustainability of the companies.

Environmental Regeneration

Adhering to the Islamic view on environmental protection can be seen as the responsibility of mankind to preserve the environment as Allah created man as a viceregent (Khalifah) in this world with a responsibility (Amanah) (Haneef, 2002). Thus, as part of the Islamic fundamental faith, the environment and its ecosystem should be protected as it is also the creation of Allah, and man which also created by Allah has the responsibility to care and protect the environment (Aung, 2016). Islamic financial institutions need to be concerned about the impact of their operations on living and non-living natural systems (Jan et al., 2019). They need to ensure that their activities do not harm the world by compromising its sustainability, including the need to protect the environment, prevent environmental damage, and ensure human survival in their operations (Dabija, Al Pop & Postelnicu, 2016). A study by Yusoff & Darus (2014) highlighted those Islamic financial institutions need to develop a framework for monitoring environmental performance of their clients and suppliers. This is because environmental sustainability practices of the Islamic financial institution were still minimal.

Board of Directors, Shariah Committee and Sustainability Commitment of Islamic Banks

In explaining the interconnection between the Islamic banking models with the concept of sustainability, Aliyu et al. (2017) asserted that the institutional approaches stress on bank owners' value maximization while the welfarist approaches extend to the Maqasid Shariah realization through enhancement of societal well-being. The consideration of these approaches are institutionalised to establish sustainability-related board expertise with corporate social responsibility (CSR) committees and Chief Sustainability Officers are the cue for either the symbol gestures for companies (related to the risk of green-washing) or those that contribute substantively to CSR activities (management's intrinsic motivation) (Velte & Stawinoga, 2020). Hence, effective internal governance mechanisms are central elements in pursuing strategic decision-making processes and the quality of the decisions affecting the genuine CSR policies in firms. The complexities associated with corporate sustainability practices give rise to the need for proper implementation and control of the sustainability strategies, with the goal of improving sustainability performance and reaping the expected benefits (Yu & Liang, 2020).

From the perspective of the investors and other stakeholders, sustainability commitment is a boardroom agenda. Previous studies have identified various corporate governance factors that are able to influence sustainability practices (Jamil, Ghazali & Nelson, 2020) including those related to the board of directors (Hashim et al., 2015). Better-governed companies are more committed in pursuing a socially responsible agenda through higher commitment on sustainability practices. From the perspective of the Agency Theory, the board of directors has the function to monitor the management on behalf of shareholders. In addition to the corporate governance structure related to the board of directors, Islamic financial institutions adhere to Shariah governance in order to sustain their performance in the financial market (Jan, Lai & Tahir, 2021). Basiruddin & Ahmed (2020) posited that the implication of Shariah governance on the overall governance quality is complementary. Isa & Lee (2020) indicated that the diversity of expertise of the Shariah committee would help in having a well-rounded deliberation as they are more aware of the operational risks and financial performance of the banks. Hence, the presence of a Shariah committee is crucial for the efficacy of the board of directors in performing business operations.

The board of directors is seen as the source of strategic leadership that plays a role in strategizing for corporate practices (Castellanos & George, 2020) and act to discipline managers through their active monitoring role. Zaid et al., (2020) asserted that a more diverse board contributes to greater leadership and management oversight because the diversity increases the independence of boards. Efficient numbers of board size in the board of directors could enhance strategic leadership in terms of developing and overseeing the management, culture, and governance of sustainable practices (Emmanuel et al., 2018). Meanwhile, women directors could influence strategic decisions in terms of innovation and investment (Sun et al., 2015) through their contribution to board decision making. The strategic leadership of the Shariah committee, which is an additional layer of governance for Islamic banks, ensures the compliance with Islamic rules and principles (Ghada & Mensi, 2018) that emphasizes on social and ethical dimensions. The board of directors and the Shariah committee serve as the source of strategic leadership by being responsible in developing and overseeing the management, culture, and governance of sustainable practices.

Board Size

Board size represents the number of directors on the board of directors. There have been various research investigating on the efficient number of directors that can effectively make the best decision for companies (Aksoy & Arli, 2020). Nevertheless, Graf & Stiglbauer (2009) argued that a high number of board members can compromise the efficiency of corporate governance in companies, as large boards can result in slow decision-making processes because of the insufficient critical self-reflection by the board members. In line with the majority of studies that support the positive effect of board size and sustainability efforts by Islamic financial institutions (Shabana & Ravlin, 2016), this study posited that larger boards will increase the involvement of the companies in sustainable activities and can efficiently communicate sustainable performance to the stakeholders of the companies. The bigger the number on the board the better the decision-making process, and accordingly more sustainability practices are expected in companies. The first hypothesis was set as follows:

H1: There is a positive association between board size and sustainability commitment of Islamic banks.

Women on Board

Board diversity, especially gender diversity, is a significant corporate governance mechanism. A well-diversed board is linked to the decision making that incorporates sustainable agendas because such a board caters for the interest of various stakeholders (Lu & Herremans, 2019). Female directors are highly concerned and more conservative in making decisions involving sustainability issues (Burkhardt et al., 2020). Jizi (2017) argued that women on board bring new perspectives to the board, besides enhancing the shareholders' social welfare and give a good image to the citizens. Boards with a higher proportion of female directors had higher environmental performance (Lu & Herremans, 2019) and higher levels and quality of environmental reporting (Lagasio & Cucari, 2019). Many studies have proved that a higher number of woman on a board positively explains greater CSR performance (Francoeur, Labelle, Balti, & EL Bouzaidi, 2019). In the context of sustainable practices and disclosures, the literature suggests that female directors would demand higher levels of sustainability, and tend to use moral reasoning and to behave ethically in the companies (Rosati et al., 2018). Therefore, we offered the following research hypothesis:

H2: There is a positive association between women on the board and sustainability commitment of Islamic banks.

Shariah Committee

One of the uniqueness of Islamic banks is the presence of a Shariah committee that has the responsibility to advise, consult and supervise banking operations to ensure that the banks comply with Shariah principles. The Shariah committee has a role in ensuring that business entities follow the Shariah principles, including by providing guidance to the management to promote sustainability which can positively affect corporate performance (Ajili & Bouri, 2018)a sample of 44 IBs operating in Bahrain, Kuwait, Qatar, Oman, the United Arab Emirates and the Kingdom of Saudi Arabia were investigated according to information provided by the national central bank websites of the Gulf Cooperation Council (GCC. Many scholars hold the view that there is a positive relationship between a Shariah committee and sustainability practices (Mallin et al., 2014). For example, Mallin et al. (2014) found that there was a positive relationship between Shariah committees and sustainability practices among 91 Islamic financial institutions across 13 countries from 2010-2011.

Additionally, Hashim et al. (2015) stated that Islamic financial institutions must have an independent Shariah committee with specialised knowledge of Islamic laws and fiqh al mu`amalat to make transactions, and not only focus on the knowledge of modern business, finance, and economics. A Shariah committee brings into the companies ethical and moral considerations, arising from the Maqasid Shariah principle, as the driver that moves banks towards sustainability commitment. Thus, the third hypothesis was stated as follows:

H3: There is a positive association between Shariah committee and sustainability commitment of Islamic banks.

RESEARCH METHODOLOGY

Sample Selection and Data Sources

This paper selected 16 Islamic banks operating in Malaysia as the sample, by referring to the list of Licensed Financial Institutions by Bank Negara Malaysia. Two years were used, 2017 and 2018, because the banks in Malaysia started to adopt a full and separate sustainability reporting from the year 2017. The 16 Islamic banks consisted of 11 local and 5 foreign banks. With the two-year period, the total sample was 32 observations. Data was collected from secondary sources, mainly from the annual reports and sustainability reports of the banks. Information regarding the board of directors was hand-collected from the board of directors' profile and corporate governance statements, while data regarding commitment to sustainability practices was hand-collected from the sustainability reports of the banks.

Dependent Variable: Sustainability Commitment of Islamic Banks

In measuring the banks' commitment towards sustainability practices, an index was developed based on three sources. First, we referred to the State of the Global Islamic Economy Report 2018/19 where 11 SDGs were mapped for the Islamic Finance (Reuters, 2018). Second, we looked at the the sustainability framework of the Sustainable Development Goals (SDGs) from the United Nations Global Impact (2016). Third, we referred to the Value Based Intermediation guideline by Bank Negara Malaysia (BNM, 2018). As shown in Table 2, the index consisted of 39 items of the SDGs involving three dimensions; Economic Resiliency (Prosperity), Social Empowerment (People) and Environmental Regeneration (Planet). The self-constructed index was categorized into 11 main goals with each goal containing two to five items, representing a comprehensive approach to measure sustainability practices of the banks. For the purpose of reducing bias error in real data collection (Zikmund et al., 2008), the index was tested for its reliability and validity as an experimental instrument through verifications by two Shariah Executives in two Islamic Banks.

Table 2: Sustainability Commitment Index

SDGs	Indicators for Measurement of Each Item
Prosperity: Economic Resiliency	
SDG 8: Decent Work and Economic Growth	Offer (savings, credit and takaful) for microfinance and small business owners
	Leverage new business models and technologies - impact investment, crowdfunding
	Reporting on minimum wages paid
	Expand finance for young people
SDG 9: Industry, Innovation and Infrastructure	Investment in low-carbon infrastructure (green infrastructure project)
	Offer long-term financing for public-private partnerships in infrastructure
SDG 10: Reduced Inequality	Leverage new technologies such as mobile money payment services, big data or cloud computing
	Pay staff a living wage
SDG 12: Responsible Consumption and Production	Statement relevance to sustainability (mission, visions)
	Established sustainability department
	Subscribing to relevant local or international standards or best practices (ESG, VBI)
	Partnership with a green organization for sustainable production
	Offer green Sukuk for funds, loans and deposits
	Donates profits for environmental preservation activities
People: Social Empowerment	
SDG 1: No Poverty	Offer relevant products (including low/no fee accounts) such as Qard al-Hasan
	Offer financial education to the communities especially lower-income communities
	Pay Zakat to asnaf
	Reported on charity – Sadaqah and Waqf
SDG 2: Zero Hunger	Collaborate with governments and other institutions for sustainable agriculture financing
	Established responsible business policies for human violation and land rights
	Established a program to deliver food assistance to the needy
SDG 3: Good Health and Well-Being	Provide capital for investment in healthcare institutions
	Support health promotion activities
	Established program with the community e.g. HIV education programs
SDG 4: Quality Education	Collaborate with development finance institutions and governments for education projects financing
	Offer Sukuk for education by providing access for personal savings and education loan
	Provide training for small medium enterprises in accounting, business management and customer services
	Provide student internships for low-income students (B40)

SDG 5: Gender Equality	Provide savings, credit and takaful products for women in grow business
	Provide Ar-Rahn to increase lending access for women
	Provide women share and roles on company Boards
	Provide educational outreach program that targets teenage girls
	Provide educational opportunities and talent program supporting women to reach management levels
SDG 7: Affordable and Clean Energy	Provide financial expertise in energy pricing models for energy efficiency
	Provide capital and invest (green Sukuk) in project related to renewable energy
	Provide innovative credit for small medium enterprise to encourage enhancing energy efficiency
Planet: Environmental Regeneration	
SDG 13: Climate Action	Invest in climate risk mitigation, climate resilience and climate adaptation (financing)
	Provide takaful schemes that cover natural catastrophe
	Conduct a program to improve community resilience to climate change

Sources : Adapted from Reuters (2018), United Nations Global Impact (2016) and BNM (2018)

Data regarding the banks' sustainability commitment was scored using a binary scoring method because the method was commonly applied by previous studies on corporate disclosures (Hashim et al., 2020). To score each item in the index, a score of 1 (one) was given if the item was disclosed, and zero (0) otherwise. The scoring approach allowed for the information regarding SDGs to be deeply examined (Sharif & Lai, 2015). The score for a bank's sustainability commitment, Sustainability Commitment of Islamic Banks (SCIB), was proxied by three variables (ECO, SOC, ENV) based on the three dimensions below, with the formula for each dimension that was derived as follows:

$$SCIB = \sum \frac{ECO_{ji}}{D_I} + \sum \frac{SOC_{ji}}{D_I} + \sum \frac{ENV_{ji}}{D_I} \tag{1}$$

Where,

$ECO_{ji}/SOC_{ji}/ENV_{ji}$ = "1" when j^{th} item is disclosed, or "0" if not disclosed.

D_i = maximum number of items disclosed for each dimension

Explanatory Variables: Board of Directors

The achievement of sustainable development in an organization can be enhanced by having a robust governance by the corporate board. Communication by the board of directors towards all parts of the management in an organization is essential. Fulfilling the agenda of sustainable development throughout the organization would enhance the performance as well as revealing the best leader in sustainable practices. For the purpose of this study, the board characteristics employed were board size, women on the board of directors and Shariah committee.

Board size (BSIZE)

Board size was considered as one of the main characteristics in corporate governance that can influence corporate activities and operations (Hussain et al., 2018). A large board size is known to be an effective monitoring mechanism, due to diversified experience that can also influence environmental practices (Hashim et al., 2015). Following previous studies (e.g. Masulis & Reza, 2015), board size (BSIZE) was measured using the total number of board members in the Islamic Banks.

Women on board (WOMEN)

Women on the board had been recognized as a representation of board diversity (Hussain et al., 2018). The presence of women in the board of directors influences corporate decisions on social and economic matters (Fernandez-Feijoo et al., 2012). To measure board diversity that was proxied by women on board, this paper followed Chams & García-Blandon (2019) and Rosati & Faria (2019) by employing the percentage of women in the board of directors (WOMEN).

Shariah committee (SC)

Every Islamic banks that offer Islamic products and services is required by Shariah Advisory Council, BNM to establish a Shariah committee that consists of three experts or scholars specializing in Islamic-based economic, Islamic law and principles (Mallin et al., 2014; Hashim et al., 2015). Shariah committee was measured by the total number of members in Shariah committee, in line with the approach used by Jan et al. (2018).

Control Variables

This study employed a range of control variables that have been identified in prior studies as determinants of sustainability disclosures and practices. Bank's age (AGE) referred to the age of the Islamic banks, which was calculated from the year of their foundation or when they were first incorporated in Malaysia (Tuan Ibrahim et al., 2020). Meanwhile, banks' profitability was recognized as a determinant for sustainability practices. ROA is widely used as a control variable by previous corporate sustainability studies such as Chams & García-Bland (2019). Banks with higher ROA are shown to have higher sustainability practices. Another control variable was bank size, which was proxied by total assets. Larger banks have a higher ability to utilize resources efficiently towards sustainability practices (Beck et al., 2013) and being highly responsible towards sustainability due to pressures from investors and regulators (Jan et al., 2018). Bank size was measured by using the natural log of total assets (LN_ASSET), following Orazalin et al. (2016). Table 3 summarizes the measurement of all the variables used in this study.

Table 3: Description of Variables

Variables	Measurement	Sources
Dependent Variable		
Sustainability Commitment of Islamic Banks (SCIB)	Total score of 11 SDGs indicators for Islamic banking	Reuters (2018) BNM (2018) United Nations Global Impact (2016)
Explanatory Variables		
Board Size (BSIZE)	The number of board members	Furlotti et al. (2019) Hashim et al. (2015) Masulis & Reza (2015)
Women on Board (WOMEN)	The number of women on board to the total number of board members	Rosati & Faria (2019) Fernandez-Feijoo et al. (2012)
Shariah Committee (SHARIAH)	The number of members in Shariah committee	Jan et al. (2018)
Control Variables		
Bank's Age (AGE)	Bank's age of operations	Tuan Ibrahim et al. (2020) Orazalin et al. (2016)
Profitability (ROA)	Return on Assets (ROA)	Chams & García-Blandon (2019)
Bank Size (LN_ ASSET)	Natural log of total assets	Orazalin et al. (2016)

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics outline the tabulation of the data used in the analysis of this study. Table 4 illustrates the statistic for each indicator of the SDGs in the Sustainability commitment index. For *Prosperity: Economic Resiliency* dimension, there were increases in the disclosure by Islamic banks from year 2017 to 2018. For SDG-8, the mean value increased from year 2017 (23.40 percent) to 2018 (31.3 percent). The finding provided insights that the Islamic banks in Malaysia were getting more committed towards achieving their economic growth by offering a wide range of products for small or medium size enterprises (SMEs). For SDG-9, the statistics for 2017 showed that only 18.8 percent of the Islamic banks disclosed information related to the effort in leveraging new business models or by innovating products toward young generations. In 2018, the disclosure increased, with 25 percent of the sample providing such information. The finding shows that the Islamic banks were moving towards taking technological advantages to create new business models in their effort to enhance the economy of the community.

For SDG-10, 15.6 percent of the sample provided information regarding their initiatives to reduce inequalities in communities in their 2017 annual report. In 2018, an increase in the disclosure was shown with 21.9 percent of the sample providing information related to SDG-10. For SDG-12, 19.8 percent of the Islamic banks disclosed the commitment done in 2017 such as by organizing charity events and adopting sustainability in their operations. The percentage of banks that disclosed information related to SDG-10 increased to 25 percent in 2018. Under *People: Social Empowerment* dimension, only SDG-1 was shown to have a substantial disclosure compared to the other SDGs under a similar dimension. In 2017, 26.6 percent of the Islamic banks disclosed information related to the indicator for SDG-1. In 2018, there was a slight increase in disclosure with an average score of 28.1 percent. This finding suggested that the Islamic banks were committed to help the poor and the needy by providing financial education and distributing zakat or charity.

For SDG-2, there was a slight reduction of disclosure from year 2017, with 16.7 percent, to only 12.5 percent in 2018. These reductions can be explained by the fact that the Islamic banks might be provided food for the poor under zakat or charity events. It may also suggest that the Islamic banks focussed on empowering the community through their businesses but not in the agricultural sector. For SDG-3, the percentage of disclosure was 16.7 percent for both the 2017 and 2018. For SDG-4, only 6.3 percent of the sample provided information regarding education towards the community in 2017, but there was a sharp increase in disclosure with 12.5 percent in 2018. The finding showed that the Islamic banks were becoming more aware of the importance of financial education especially for the sustainability of life of the low-income community.

For SDG-5, only 15 percent of the banks in the sample provided information regarding gender equality in 2017. Meanwhile, in 2018, the percentage of such disclosure decreased to 13.8 percent. The reason of the low disclosure can be explained as an indicator that the Islamic banks did not distinguish between gender when providing education for the community. Further, there was no disclosure on SDG-7. It is possibly related to the fact that the clean energy sector is still underdeveloped in Malaysia. Thus, investment in clean energy might be costly for the banks and the banks prefer to invest in sectors that meet their business models. Lastly, under *Planet: Environmental Regeneration* dimension, only 2.1 percent or 1 bank provided information related to SDG-13 in 2017. No banks disclosed such item in 2018. The average scores for each dimension are also presented in Table 4. Overall, the Economic dimension (ECO) had the highest average disclosure for the two years; 20.1 percent in 2017 and 26.3 percent in 2018. The results for SOC represent the scores for the social dimension, which were 13.9 percent in 2017 and 14.5 percent in 2018. For the Environmental dimensions (ENV), only 2.1 percent or 1 bank disclosed the related item in 2017.

Table 5 shows the descriptive statistics of all the variables used in testing the hypotheses. For the sustainability commitment index (SCIB), the mean (Std.Dev. values was 0.165 (0.15) with a maximum score of 44.7 percent. The results indicated that the score for sustainability disclosure was rather low. Meanwhile for board size (BSIZE), the average number of directors in the corporate board was 6 persons, while the maximum (minimum) number of board members was 10 (4) persons. The descriptive analysis highlighted that on average, there was one (1) women director on the board (WOMEN) of the Islamic banks in Malaysia. The maximum number of women on corporate board is 4 persons. For Shariah committee (SHARIAH), the average number of members of the committee was 5 persons while the maximum number of members was 7 persons. In terms of the control variables, the average value of the banks' age (AGE) was 13 years, while the longest age of incorporation was 35 years. The result for profitability (ROA) indicated that the Islamic banks had an average of 2.14 percent of ROA with a maximum ROA of 3.14 percent. For bank size (LN_ASSET), the mean value was 24.0253 or RM27 billion, while the maximum value was 26.140 or RM 225 billion.

Table 5: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	VIF	1/VIF
SCIB	32	0.165	0.150	0	0.447		
BSIZE	32	6.063	1.740	4	10	1.69	0.593
WOMEN	32	0.223	0.212	0	0.8	1.97	0.506
SHARIAH	32	5.219	0.491	5	7	1.13	0.883
AGE	32	13.937	6.672	9	35	1.86	0.539
ROA	32	0.0214	0.0045	0.0149	0.0314	1.78	0.562
LN_ASSET	32	24.0253	0.961	22.710	26.140	1.89	0.529

Variables description: SCIB = Sustainability Commitment of Islamic Banks, measured by the total scores of 11 SDGs indicators for Islamic banking; BSIZE= Board Size, measured by the number of board members; WOMEN = Women on Board, measured by the number of women on board to the total number of board members; SHARIAH = Shariah Committee, measured by the number of members in Shariah Committee; AGE = Age of bank, measured by the age of its operations; ROA = Profitability, measured by Return on Assets; LN_ASSET = Size of bank, measured by natural log of total assets.

Table 4: Descriptive Statistics for Sustainability Commitment Index

	Pooled					2017					2018			
SDGs	**N**	**Min**	**Max**	**Mean**	**S.D**	**N**	**Min**	**Max**	**Mean**	**S.D**	**Min**	**Max.**	**Mean**	**S.D.**
Prosperity: Economic Resiliency														
SDG8	32	0	0.75	0.273	0.257	16	0	0.750	0.234	0.249	0	0.750	0.313	0.266
SDG9	32	0	1	0.218	0.335	16	0	1.000	0.188	0.359	0	1.000	0.250	0.316
SDG10	32	0	1	0.188	0.304	16	0	1.000	0.156	0.301	0	1.000	0.219	0.315
SDG12	32	0	0.83	0.223	0.234	16	0	0.500	0.198	0.204	0	0.830	0.250	0.265
People: Social Empowerment														
SDG1	32	0.273	0.272	0	0.75	16	0	0.750	0.266	0.266	0	0.750	0.281	0.287
SDG2	32	0.145	0.187	0	0.67	16	0	0.670	0.167	0.211	0	0.330	0.125	0.167
SDG3	32	0.166	0.293	0	1	16	0	1.000	0.167	0.322	0	1.000	0.167	0.272
SDG4	32	0.094	0.152	0	0.5	16	0	0.250	0.063	0.112	0	0.500	0.125	0.183
SDG5	32	0.144	0.137	0	0.4	16	0	0.400	0.150	0.155	0	0.400	0.138	0.120
SDG7	32	0	0	0	0	16	0	0.000	0.000	0.000	0	0.000	0.000	0.000
Planet: Environmental Regeneration														
SDG13	32	0.010	0.058	0	0.33	16	0	0.330	0.021	0.083	0	0.000	0.000	0.000
Dimensions														
ECO	32	0.232	0.228	0	0.714	16	0	0.710	0.201	0.226	0	0.710	0.263	0.233
SOC	32	0.142	0.136	0	0.455	16	0	0.450	0.139	0.142	0	0.410	0.145	0.133
ENV	32	0.010	0.059	0	0.333	16	0	0.330	0.021	0.083	0	0.000	0.000	0.000

Variables description :_SDGs = Sustainable Development Goals; SDG 8 = Decent Work and Economic Growth; SDG 9= Industry, Innovation and Infrastructure; SDG 10= Reduced Inequality; SDG 12= Responsible Consumption and Production; SDG 1= No Poverty; SDG 2= Zero Hunger; SDG 3= Good Health and Well-Being; SDG 4= Quality Education; SDG 5= Gender Equality; SDG 7= Affordable and Clean Energy; SDG 13= Climate Action; ECO = Prosperity: Economic Resiliency; SOC = People: Social Empowerment; ENV = Planet: Environmental Regeneration

Correlation Analysis

Table 6 shows the correlation analysis for all the variables used in this study. For the correlation between the dependent and independent variables, correlations were only shown between SCIB and AGE and LN_ASSET. BSIZE was shown to be correlated with AGE and ROA, while WOMEN was correlated with LN_ASSET. The correlation analysis also showed a correlation between AGE and ROA. Despite the few correlations between the independent variables, there was no concern of multicollinearity as all the correlations were less than 0.8. Moreover, as shown in Table 3, the VIF values for all variables were less than 10 (Danso et al., 2019).

Table 6: Correlation Analysis

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	SCIB	1						
(2)	BSIZE	0.2994	1					
(3)	WOMEN	0.2753	-0.1941	1				
(4)	SHARIAH	0.3036	-0.0165	0.2834	1			
(5)	AGE	0.5258*	0.5088*	0.1443	0.093	1		
(6)	ROA	0.1756	0.5336*	-0.1677	-0.0974	0.5607*	1	
(7)	LN_ ASSET	0.3993*	0.0638	0.6421*	0.3081	0.2464	-0.0432	1

*Significant at five percent level (p<0.05)
Variables description: SCIB = Sustainability Commitment of Islamic Banks, measured by the total scores of 11 SDGs indicators for Islamic banking; BSIZE= Board Size, measured by the number of board members; WOMEN = Women on Board, measured by the number of women on board to the total number of board members; SHARIAH = Shariah Committee, measured by the number of members in Shariah Committee; AGE = Age of bank, measured by the age of its operations; ROA = Profitability, measured by Return on Assets; LN_ASSET = Size of bank, measured by natural log of total assets.

Main Analysis

The results of the panel data analysis, to test the hypotheses of this study, are shown in Table 7. Panel data analysis involved 3 types of models; pooled OLS, random effect and fixed effect models. To determine whether the analysis applied to the OLS or random effect, the Breusch-Pagan Lagrangian multiplier (BPLM) test was performed (Law, 2018). The BPLM test showed that the random effect model should be selected for further analysis as the p-value was smaller than 5 percent ($p < .05$). Later, the Hausman specification test was conducted to determine whether the model applied to the random or fixed effect (Law, 2018). The Hausman test showed that the p-value was larger than 5 percent (p > .05). Therefore, the random effect model applied as there were no variables that changed with time across the period. The panel data analysis involving the random effect model was conducted using Huber-White robust estimations approaches to control for the heteroscedastic problem.

In the random effect (RE) model (1) in Table 7, the number of women on board (WOMEN), the number of Shariah committee members (SHARIAH), age of banks (AGE) and bank size (LN_ASSET) were shown to have significant relationships with SCIB. The RE model yield R-squared of 76.1.

Table 7: Panel Data Regression Analysis

VARIABLES	(1) RE
BSIZE	-0.0035
	(0.0105)
WOMEN	-0.218***
	(0.068)
SHARIAH	0.049***
	(0.016)
AGE	0.0097***
	(0.003)
ROA	0.075
	(2.320)
LN_ASSET	0.086***
	(0.013)
Constant	-2.222***
	(0.299)
Observations	32
R-squared	0.770
N	16

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Breusch-Pagan Lagrangian multiplier test: Chi-sq = 10.53; p-value = 0.0006
Modified Hausman specification test: Chi-sq = 4.639; p-value = 0.5908

Variables description: SCIB = Sustainability Commitment of Islamic Banks, measured by the total scores of 11 SDGs indicators for Islamic banking; BSIZE= Board Size, measured by the number of board members; WOMEN = Women on Board, measured by the number of women on board to the total number of board members; SHARIAH = Shariah Committee, measured by the number of members in Shariah Committee; AGE = Age of bank, measured by the age of its operations; ROA = Profitability, measured by Return on Assets; LN_ASSET = Size of bank, measured by natural log of total assets.

The results from the RE model (1) suggested that board size did not influence sustainability disclosure, as the coefficient for BSIZE was insignificant. This finding is contrary to previous studies such as Buniamin et al., (2011), but was in line with Hussain et al. (2018). The results suggested that whether it is a small or large size corporate board, no evidence was shown to support the argument that board size influences decisions on sustainability practices. It was possible that the sustainability agenda is not the focus of any size of the corporate board of the Islamic banks. Therefore, Hypothesis 1 was rejected.

The coefficient of WOMEN was shown to be negative and significant at the 1 percent level ($p < .01$). This finding showed that the higher the percentage of women as members of the board of directors, the less committed the banks were towards sustainability practices. Thus, Hypothesis 2 was also rejected. The result shown in this study was contrary to expectation set in the hypothesis and the findings in previous studies (Chams & García-Blandon, 2019) that women directors have great influence over managerial decisions involving social and environmental activities. In this study, the negative relationship showed that the smaller the percentage of women on the board, the more the commitment of Islamic Banks to sustainability practices. The finding implied that banks with a higher number of women as board members were less likely to focus on environmental or social matters, in line with the finding by Hussain et al. (2018).

The results associated with Shariah committee (SHARIAH) indicated that there is a positive relationship between SHARIAH and SCIB, as the coefficient was significant at the 5 percent level ($p < .05$). The finding indicated that the larger the size of the Shariah committee, the more committed the banks were towards sustainability practices. Hence, Hypothesis 3 was accepted. This finding implied that the Shariah committee, that consists of personnel or directors with Islamic and Shariah principles background, focussed on doing the right thing as it is ethically acceptable to do so. Commitment toward sustainability represents the banks' ethical practices in their operations. The finding was in line with Chouaibi, Chouaibi & Chaabane (2021) that found the size of Shariah Supervisory Board had contributed to the sustainability practices of Islamic financial institutions. The results indicated that there were greater sustainability practices when the financial instititutions have many Shariah scholars with different background and experience. Thus, a Shariah committee will tend to ensure that corporate compliance to the Islamic laws and principles could also benefit society and the environment, and accordingly enhance the sustainability practices of the Islamic financial institutions.

Meanwhile, the results of the control variables showed that age of banks (AGE) and bank size (LN_ASSET) had a positive relationship with SCIB at the 1 percent level of significance ($p < .01$). The profitability of the banks, proxied by ROA, was not associated with the sustainability practices of the banks.

CONCLUSION

Sustainability practices need to be integrated with business operations and functions because such practices enable companies to create value for both the stakeholders and the companies. For Islamic banks, being committed towards sustainability practices reflects the banks' ethical practices in their operations, other than just offering financial products and services. The board of directors of the banks have an important role in determining the orientations of the banks in meeting stakeholder expectations as well as economic value creation. For Islamic banks, the role of the Shariah committee significantly complements the oversight role of the board through the knowledge and expertise of the members of the committee. This study employed three characteristics of the governance of Islamic banks; board size, women on the board and Shariah committees. These characteristics represent the 'tone from the top', through the offering of strategic leadership that promotes sustainability commitment.

The findings showed that board size did not influence banks' sustainability practices as these activities can be viewed as the presence of agency costs. Although sustainability practices are considered as one important factor that lead banks towards long-term economic benefits, the board may not view it as important because their priorities are more on pursuing a profit. Regarding the presence of women on the board, the findings showed that women on the board are less likely to be involved in social-environmental activities. The higher the number of women on the board, the less likely it is for the banks to be committed towards sustainability disclosure and activities. Nevertheless, findings in relation to Shariah committees suggested that banks with a larger Shariah committee were more committed in sustainability disclosures and practices. The Shariah committee acted as advisors for Islamic Banks regarding the Shariah and Islamic principle matters in their business operations. The findings suggest that Shariah committees, that consists of Islamic financial experts and Islamic scholars, saw the relevance of sustainability practices as ethical practices that are in line with Islamic principles.

This study has several limitations that would offer insights for future research. Firstly, regarding the sample size and period of observations. This study used 16 Islamic banks and a two year period of observations, with the potential to cause less variation in datasets and leads to the bias in data and model estimations. Future studies should consider different financial institutions (i.e insurance, takaful companies) and utilize more than a two year data in order to be more accurate in the estimations of the models. Another limitation is that this study only focussed on three attributes proxying for strategic leadership as the explanatory variables. There are other board of directors' attributes (i.e board independence, board knowledge and board meetings) that can be included in the models. For example, the role of female directors can be extended further by disentangling the effect of the different types of female directors (Rubino, Tenuta, & Cambrea, 2021). Also, a systematic review by Alhossini, Ntim & Zalata (2021) would assist in identifying the development in measurements related to board committees and the associated outcomes.

Future studies can also consider external governance mechanisms that can potentially explain corporate sustainability practices, such as corporate ownership structure. A valuable research approach would be to integrate both internal and external governance, and to see whether they complement or substitute in explaining sustainability disclosure and practices of the banks. Finally, the challenges imposed by the global COVID-19 pandemic, which may accelerate greater commitments towards using the SDGs framework in corporate risk management and strategic directions, offer potential research avenues (Bebbington & Unerman, 2020). For accounting scholars, Bebbington & Unerman (2020) proposed the directions that accounting scholars could take in helping to deliver innovative evidence-based solutions to organizational-level strategic and operational SDGs-related challenges.

This may include undertaking the approach by Wan Jusoh & Ibrahim (2020) that digs into on the practitioners' perspectives on corporate social responsibility (CSR) of Islamic banks, including in identifying whether the sustainability practices are driven to please external stakeholders (symbolic practice) or to change "internal practices" to serve the broader community and the environment authentically (substantive practice) (Khan et al., 2021).

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