

UNIVERSITI TEKNOLOGI MARA (UiTM)

**BOARD COMPOSITION, INSTITUTIONAL OWNERSHIP,
FIRM PERFORMANCE AND ISLAMIC CORPORATE
SOCIAL RESPONSIBILITY (ICSR) DISCLOSURE**



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ABSTRACT

Recently, there is a growing concern especially among muslims society to opt to the fully-fledged Islamic banks as an alternative to the conventional banks due to the requirement of shari'ah. Malaysia as one of the leading Islamic country that continuously emphasise on the Islamisation process has been selected as the focus of the study. The fully-fledged Islamic banks in Malaysia have adopted the Islamic corporate social responsibility (ICSR) disclosure in their daily practices which will reflect the interest of the muslims stakeholders and other stakeholders. The study examines factors that determine the Islamic corporate social responsibility (ICSR) disclosure based on two theories i.e. resource-based theory and stakeholders' theory. Based on resource-based theory, this study examines the influence of five largest institutional ownership, muslims board members, top management support and the independent non-executive directors on the ICSR disclosure. In addition, the effects of the ICSR disclosure to the firm performance based on stakeholders' theory are also examined. Furthermore, the content analysis is used to measure the extent of ICSR disclosure with the related variables based on the annual reports of the 17 fully-fledged Islamic banks in Malaysia for the year ended 2008 until 2010. The findings of the study shows that muslims board members and top management support significantly influence the ICSR disclosure while the independent non-executive directors do not influence the ICSR disclosure. On other hand, five largest shareholders have inverse relationship with the ICSR disclosure. Furthermore, ICSR disclosure is significantly affecting the Islamic banks' performance which is in line with the stakeholders' theory. Thus, ICSR disclosure is viewed as intangible resources as well as can be used as important strategy which improves the Islamic banks profitability besides portrays good reputation to public. Overall, this study highlights the importance of board composition, top management support and the institutional ownership on the ICSR disclosure. Further, ICSR influence Islamic banks to disclose more ICSR information in annual reports and subsequently improving the firm performance.

Keywords - Islamic corporate social responsibility disclosure; stakeholders' theory; resource-based theory; board composition; institutional ownership; firm performance

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CHAPTER 1

INTRODUCTION

1.1 Preamble

The past few years have shown an increasing trend of awareness among the public regarding the role of corporation in the society. Presently, firms are more concerned in generating profits for the organisation rather than contributing to the well-being of the society at large as well as to the nation. Thus, companies are being increasingly urged to become accountable not only to portray a good financial reputation but also to play wider roles in contributing to the society (Reverte, 2009). According to Daykin (2006), one of the dimensions of corporate reporting that is important to the decision makers especially for investment purposes is the social reporting. This is based on the primary purpose of the social reporting which is to determine the impact of the corporate actions on the society at large. In this regard, Bursa Malaysia has amended its listing rules since January 2001, which require public listed companies to disclose their narrative statements on the principles of corporate governance that are applied and practiced within the organisations besides complying to the codes of corporate governance which recommend best practices that lead to the firms better transparency and accountability (Othman, Thani and Ghani, 2009).

In Malaysia, the government incentive to promote the CSR is very encouraging. In this case, Dato' Seri Najib Tun Abdul Razak has made it clear in his keynote speech at the CSR conference on 21st June 2004 that CSR supports firms to improve their financial performance besides enhancing the brand image and simultaneously increasing the ability