Examining the Influence of the Characteristics of Islamic Banks and Shariah Supervisory Board on the Level of Social Responsibility Disclosure: A Review from Sudan

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Abstract

The purpose of this paper is to develop a theoretical model of corporate social responsibility disclosure from Islamic perspective in the case of Sudan, by applying the system-oriented theories (i.e. political economy, legitimacy and stakeholder theories), and economic incentives, such as the agency theory. This paper conceptualizes the influence of the characteristics of some banks (i.e. their size, profitability, and Islamic investments), and the effectiveness of the Shariah Supervisory Board (SSB), as moderating variable, on the level of corporate social responsibility disclosure in the Islamic banks' annual reports. The conclusion drawn from the literature is that the characteristics of Islamic banks; especially bank size, profitability and Islamic investments potentially have an influence on the level of Islamic social information disclosure in the Islamic banks' annual reports. In addition, the presence of an effective Shariah Supervisory Board in Islamic banks is proposed to positively moderate this relationship.

Keywords Accounting; characteristics of Islamic banks; corporate social responsibility disclosure, Shariah Supervisory Board.

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1. Introduction

The last few decades have witnessed a great change concerning the relationship between business and society. An increased level of public awareness about corporate social responsibility (CSR) activities represents the essence of this change (Reverte, 2009). Therefore, most companies are seeking to build a solid relationship with the community, which subsequently results in retaining or achieving a good reputation and enables them to realise potential economic benefits (Hasnah et al., 2006). As with other institutions, the banks in applying CSR actions affect both the internal and external stakeholders (Singh et al., 2010). Prior studies dealing with the issue of CSR were heavily based on the western orientation which focused on European and American cultures that are informed by western values system. Whereas the possibility of other cultures and religions remained unexplored, giving rise to whether the similar notions of CSR practices are accurate in the context of Islamic banks (Hussein, 2009). There are few studies investigating the issue pertaining to CSR from Islamic perspective (see for instance, Abdullah et al., 2013; Rahman & Bukair, 2013; Farook et al., 2011; Farook & Lanis, 2007; Hassan & Latiff, 2009; Lewis, 2001; Mohammed, 2007).

Islamic banks were founded as a collective religious obligation (Fard Kifaya) on the larger community (Ummah) to compensate the individual inability to avoid the irresistible and widespread usury (Riba) based system. Islamic banks are categorized as highly visible institutions in society as financial intermediaries which attract and allocate funds. The example set by the Islamic banks has an impact on other individuals, institutions, and organizations that are influenced by the actions of the Islamic banks (Maali et al., 2006). In addition, Islamic banks have the potential to teach individuals and communities to apply justice in all facets of their life based on the Islamic banks' example, as commended by Islamic teachings (Farook et al., 2011). It is for these reasons Islamic banks and any other representative Islamic institutions that are performing a collective obligation (Fard Kifaya) have a special duty of social responsibility. This social responsibility is an extension of the social responsibility of every Muslim, but it is a responsibility that Muslims do not have the capacity to perform individually.

While there is a solid theoretical foundation for CSR in Islam, the reality falls short. The Islamic financial system has been criticized for failing to incorporate the true spirit of Shariah in their actions. Maali et al. (2006) concluded that, with a few exceptions, Islamic banks have a long way to go to meet the expectations of the Islamic community. In addition, they found that there is a considerable variation in the voluntary social reporting of Islamic banks.

Sudan is not an exception in this trend of Islamic banking practices. While the Sudanese banking system was fully Islamized since 1991, Sudanese Islamic banks have faced many problems such as a weak size in relation to the financial sector and financial liquidity, low confidence in the banking system, and low and poor credit performance (Badr El Din, 2006).

It is worth mentioning that until now there are no standards or regulations which require Sudanese Islamic banks to disclose CSR in their annual reports. As a result, CSR disclosure in Sudan is considered voluntary.

Among many themes in the social and environmental accounting and reporting literature, one area of consistent interest through the years has been the attempts made to explain this disclosure by reference to the typically observable corporate characteristics of size, profit, ownership structure and industry affiliation (Kamal & Deegan, 2013). Although researchers have drawn from a wide range of theoretical perspectives, they have consistently speculated that larger, more profitable firms, and those in more socially and environmentally sensitive industries can be expected to make greater use of the typically voluntary disclosure of information about their social and environmental activities (Farook et al., 2011; Farook & Lanis, 2007; Ghazali, 2007; Mashat, 2005; Rahman et al., 2011; Roberts, 1992; Skouloudis et al., 2014).

Islamic banks act under a unique structure of corporate governance; they have a Shariah Supervisory Board (SSB). The SSB is considered a special type of supervision which reduces the conflict of interest between the investors and the management of an Islamic bank (Rahman & Bukair, 2013). The existence of the SSB in Islamic banks may improve the level of monitoring, and thereby lead to the provision of more information concerning CSR (Rahman & Bukair, 2013; Farook et al., 2011).

The extent to which the SSB influences CSR disclosure may be based on corporate governance attributes. Hence, a number of determinants that are associated with the SSB's characteristics may affect the effectiveness of the SSB's role and consequently, the extent of CSR disclosure among Islamic banks. Therefore, this study introduces the effectiveness of the

SSB as moderating variable with the presence of the SSB strengthening the relationship between the banks' characteristics and the level of corporate social responsibility disclosure.

This conceptual paper contributes to the literature in the area of CSR disclosure from an Islamic perspective in three ways. Firstly, to the best of the authors' knowledge, this is the first study which aims to conceptualize the CSR disclosure practices of Islamic banks in Sudan from the Islamic point of view, based on a disclosure index. Secondly, this conceptual paper notes the absence of the examination of the effects of corporate characteristics on social disclosure levels in Sudan, and attempts to conceptualize the missing link. Thirdly, the current study introduces the effectiveness of the SSB as a moderating variable that may influence the relationship between the characteristics of the banks and the CSR disclosure by Islamic banks in Sudan, whereby each Sudanese Islamic bank must have its own SSB according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) governance standard No.1 (AAOIFI, 2008).

The remainder of this paper is organized into seven sections. The next section briefly reviews the relevant literature concerning the history of CSR disclosure by Islamic banks, using the historical knowledge of CSR disclosure and key factors that influence the level of CSR disclosure in Islamic banks. The third section presents a theoretical foundation for CSR disclosure from the Islamic perspective and displays the proposed theoretical framework. The fourth section develops propositions for further investigations. The fifth section covers the research method employed to obtain and analyze the previous literature and methods to be used to empirically test the research. Finally, the sixth section discusses the theoretical framework and concludes the paper.

2. Review of the relevant literature

2.1 Corporate social responsibility disclosures from the Islamic perspective

Despite the spread of companies conducting their business in accordance with Islamic Shariah principles worldwide, a small number of researchers have examined the issue of CSR from the Islamic perspective. For instance, Gambling and Karim (1986) a theoretical foundation that can be used in analyzing Islamic Accounting features and evaluating its social orientation. Karim (1995), Hamid et al., (1993), and Lewis (2001) subsequently asserted the influence of

Islam on all areas of accounting practices, paving the way for the development of a conceptual framework for Islamic accounting and for the purposes of the requirement for disclosure.

Sadeghzadeh (1995) enriched the literature by examining the structure of social responsibility and accounting for sustainability from the Islamic perspective by giving it a theoretical depth and contrasting with the conventional theories relating to this area. Baydoun and Willett (2000) supplemented Sadeghzadeh (1995) by developing normative Islamic reporting which comprises value-added statements following the two complementary principles of full disclosure and social disclosure based on Islamic ethical values. Maali et al., (2006) has developed a benchmark set for social disclosures appropriate to Islamic banks, based on the Islamic Shariah principles upon which the banks claim to operate, and then making a comparison to the actual disclosure practice to this benchmark using the disclosure index. Aribi and Gao (2010), in their study of corporate social responsibility disclosure in Islamic and Conventional Financial Institutions including banks, stated that social responsibility in the Islam context is based on the Islamic concept of human well-being and providing the foundation for a good life, which stresses brotherhood/sisterhood and socio-economic justice and requires a balanced satisfaction of both the material and spiritual needs of all humans.

In the context of the Islamic business world, businesses have to demonstrate their accountability to Allah and fulfillment of social objectives. This demonstration is expected to be reflected in the annual reports published and made available to the public.

Farook (2008) mentioned that Islamic banks are reluctant to be socially responsible because of their status as a financial institution fulfilling a collective religious obligation and their exemplary position as a financial intermediary. The study recommended guidelines of social responsibilities by developing a dichotomous framework of essentials (Daruriyat) on the one hand and complementarities and embellishment (Hajyat and Tahsiniyat) on the other hand, through conceptualization of Maslaha (public good or welfare) in Islamic jurisprudence. Abdullah et al. (2013) developed a disclosure index to explore the extent and level of CSR disclosure in the annual reports of Islamic banks in the Gulf Co-operation Countries (GCC) based on the Shariah principles.

Although many researchers suggest that Islamic banks should provide information related to social matters (Farook et al., 2011; Grassa, 2013; Hassan & Harahap, 2010), there is no study which has attempted to investigate the actual practices of social disclosure from the Islamic perspective by Islamic banks in Sudan. Hence, this study conceptualizes such an issue in the context of Sudan for further investigation.

A comprehensive definition of Islamic social responsibility in Islamic Financial Institutions is stated in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) governance standard No. 7 (Corporate Social Responsibility, Conduct and Disclosure for IFIs), which defines CSR as all activities carried out by Islamic Financial Institutions (IFIs) "to fulfil their religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries, as individuals and institutions" (AAOIFI, 2010).

2.2 Determinants of corporate social responsibility disclosure

Previous literature on CSR disclosure practices has revealed that CSR disclosure from the Islamic perspective differs from one Islamic bank to another (see for example, Abdullah et al., 2013; Aribi and Gao, 2010; Bannany, 2007; Farook, 2008; Farook et al., 2011; Maali et al 2006; Roberts, 1992). While there is extensive literature focusing on CSR disclosures of Islamic banks, research addressing the determinants of CSR disclosure level in Islamic banks is rare. As far as the authors are aware there are only three studies (Bannany, 2007; Farook et al., 2011; Farook & Lanis, 2007), that have anticipated the deteminants of such disclosure levels. The reasons suggested for proposing such determinants varies according to the theoretical foundation of the research.

This conceptual paper is focused on the relationship between the characteristics of the banks and the level of CSR disclosure in Sudanese Islamic banks from the Islamic perspective and conceptualises the moderating role of the effectiveness of the SSB. As mentioned earlier, CSR disclosure in the annual reports of Sudanese Islamic bank is voluntary. As a result the banks' characteristics affect the level of voluntary disclosure, it appears to influence the CSR disclosure level as well. The literature concerning disclosure in the banking sector is consistent in anticipating and, thus, looking for identifying and modeling a recognisable relationship between voluntary disclosures on the one hand, and proxy measures of corporate characteristics and governance attributes on the other hand (see for instance, Abdullah et al., 2013; Dhouibi, 2013; Bannany, 2007; Farook et al., 2011; Maali et al., 2006,).

2.2.1 The banks' characteristics

Different characteristics have been considered in previous studies as determinants of a bank's voluntary and CSR disclosure levels (Dhouibi, 2013; Bannany, 2007; Grassa, 2013,). However, bank size and profitability were the most frequently used. In addition, investment accounts funds, which are considered unique to Islamic banks; we expect to have an effect on social disclosure.

2.2.1.1 The size of the bank

The size of the bank has been considered in previous literature as a factor which may determine the level of disclosure of social information in the bank's annual reports. Some previous studies (see for instance, Dhouibi, 2013; Bannany, 2007) suggested that an association exists between the size of the bank and the extent to which banks disclose social information. The political-cost hypothesis predicts that larger firms have a stronger incentive to enhance their corporate reputation and public image, as they are more publicly visible (Roberts, 1992).

According to Bannany (2007) larger rather than smaller banks disclose more information because of several reasons such as the motivation to compete and political pressure exposed. Haron et al. (2010) point out that the high profile companies have a higher level of corporate social disclosure and also they have more resources to invest in non-financial disclosure than smaller companies. Bannany (2007) suggests that the size of the bank measured by total bank deposits is positively related to the social disclosure level. Whilst, Dhouibi (2013) indicates that a bank's size measured by a natural logarithm of total assets has a direct influence on the level of voluntary disclosure in the annual reports of bank in Tunisia.

Regarding the Islamic banks in Sudan, studies which have attempted to incorporate the bank's size as one of the determining factors of CSR disclosure are found to be rare (see Badr El Din, 2006). As a result, this conceptual paper introduces the bank's size as an independent variable. The bank's size is captured by total deposits (Farook et al., 2011) and/or natural logarithm of total assets (Dhouibi, 2013).

2.2.1.2 Profitability

The relationship between CSR/ voluntary disclosure levels and a bank's profitability is inconclusive (Bannany, 2007; Grassa, 2013). Studies of Grassa (2013) and Skouloudis et al., (2014) stressed a positive relationship, which implied that increased profitability can have a direct effect on the level of social disclosure. A supporting argument for this claim is that a profitable bank has more exposure to social pressure. In contrast, Skouloudis et al., (2014) suggest that profitability is a statistically significant predictor only for product responsibility disclosure. In addition, more profitable banks are assumed to disclose more information than less profitable banks as a reflection of the level of their success. However, a study of Bannany (2007) has shown a negative relationship between a bank's profitability and social disclosure. These ambiguous results seem to be due to the different measurements used as proxies for profitability.

CSR disclosure/profitability relationship could be an indication of management's ability to respond to and meet social pressure as stated by Hackston and Milne (1996). In this conceptual paper, return on equity and return on total assets are used as proxies for a bank's profitability and that these factors may influence the level of CSR disclosure in the Islamic banks' annual reports (adapted from the studies of Bannany, 2007 and Skouloudis et al., 2014).

2.2.1.3 Investment accounts holders' (IAHs) rights

Islamic banking is a type of universal banking. However, Islamic banks have their own special characteristics. As interest-bearing deposits are not permitted by the rules and principles of the Islamic Shariah, Islamic banks typically raise deposits in the form of profit-sharing investment accounts. These accounts differ from conventional deposits, not merely by the feature of the profit-sharing nature of the returns they offer, but also because the contract between the depositors and the bank is not a debt contract, and the deposits are in consequence not capital certain (that is, the depositors are required to accept negative returns or losses). This latter characteristic leads to serious regulatory problems in jurisdictions where bank deposits are required by legal definition to be capital certain. This has led to an additional component of Islamic banks' capital structure called investment accounts' funds (Archer & Karim, 2009).

Depositors in an Islamic bank are entitled to share the bank's net profit or loss. Moreover, depositors have no voting rights because they do not own any portion of the bank's equity capital. Hence, they cannot influence the bank's investment policy. Then, due to the inherent benefits of higher returns from funds invested by the IAHs (Amran et al., 2007), shareholders as owners may vicariously monitor for their other counterparts: the IAHs. This can be done through monitoring the bank's management to invest in complying with Shariah principles as well as investing in socially visible projects.

Since the Sudanese banking system was fully Islamised dated back to 1991, banks in Sudan tend to raise capital through attracting more deposits from members of the public, and these funds represent a portion of an Islamic bank's capital structure. The IAHs' rights in this conceptual paper are captured by a proportion of IAH funds to shareholders' equity (Farook et al., 2011).

2.2.2 The effectiveness of the Shariah supervisory board (SSB)

A number of Islamic banks employ a special form of monitoring to limit the divergence of interest between Islamic investors and the management of Islamic banks. The Shariah Supervisory Board (SSB) can assure investors of the compliance with Islamic laws and principles (Farook et al., 2011). The SSB is defined by AAOIFI (2008)as an independent body entrusted with the duty of directing, reviewing, and supervising the activities of Islamic financial institutions (IFIs) for the purpose of Shariah compliance, and issuing legal rulings pertaining to Islamic banking and finance (AAOIFI, 2008).

Annual reports produced by the SSB provide the necessary assurance to Muslim clients and shareholders as to whether the business meets its ethical expectations. In the Sudanese context, every Islamic institution is required by law to employ at least one Shariah scholar to act as a Shariah compliance auditor. As a result, Sudanese Islamic banks must have their own SSB in accordance with the requirements of AAOIFI governance standards No.1 Shariah Supervisory Board: Appointment, Composition and Report (AAOIFI, 2008).

However, while the existence of a SSB may lead to greater monitoring and thereby greater disclosure of CSR information, the degree to which the SSB would influence CSR disclosure may also depend on the characteristics of the corporate governance mechanism (Farook et al., 2011; Haniffa & Cooke, 2002; Ho & Shun Wong, 2001). Hence, a number of factors that relate to the SSB's characteristics may determine how effectively the SSB carries out its functions and subsequently influences the level of CSR disclosure by Islamic banks (Farook et al., 2011). The measurement of SSB characteristics constitutes the following aspects:

2.2.2.1 Number of board members

Empirical evidence in corporate governance suggests that the board's size can affect controlling, monitoring and the level of voluntary disclosure in the banks' annual reports (Dhouibi, 2013). A SSB in Islamic banks represents an important governance mechanism, and it can be argued that an increase in the number of SSB board members implies a greater level of compliance with Islamic laws and principles and leads to higher levels of CSR disclosure as the capacity for monitoring increases (Grassa, 2013). However, in Sudan, there are no restrictions on the number of SSB members, with the desired number comprising between three to seven members (Farook et al., 2011). The board's size in this conceptual paper is measured dichotomously, where a value of one (1) will be assigned to a SSB with 5 or more members and zero (0) for a SSB with less than 5 members.

2.2.2.2 Cross-membership

Farook et al. (2011) stressed that a positive relationship exists between cross-membership and the level of social information disclosed by an Islamic bank. Cross-directorship yields more transparent information through implementing decisions made on one board as input for the decisions on another board. In addition, knowledge gained in other banks can be compared to the current situation (Haniffa & Cooke, 2002).

In Sudan the Shariah scholars are permitted to sit on the SSB of more than one SSB of different Islamic banks. Therefore, cross-membership can be introduced in this conceptual paper as a determinant of the SSB effectiveness. Cross-membership is measured dichotomously where a value of one (1) is assigned to a SSB member with cross-directorship and zero (0) otherwise.

2.2.2.3 Secular education qualifications

The educational background of SSB members has been proposed to influence the level of disclosure (Abdullah et al., 2013; Hambrick & Mason, 1984; Rahman & Bukair, 2013; Rahman et al., 2011). A director with a higher level of education is expected to adopt new innovations and embrace uncertainty. Previous studies indicate that the increase in the educational level of

SSB members has a corresponding increase in the level of CSR disclosure by the Islamic banks (Farook et al., 2011). SSB members usually comprise scholars who may not be highly educated in secular studies. The members who are not highly educated may be undermined in their abilities to fully apply theoretical Islamic laws and principles. Hence, scholars with a doctoral degree in business and economics are arguably better informed of the current situation. Although Sudan is one of the leading countries in the field of Islamic banking, there are instances whereby a response to urgent issues requires scholars with a high level of academic qualification. In this conceptual paper, secular qualifications are measured dichotomously, where a value of one (1) will be assigned to a SSB member with a doctorate qualification, or zero (0) otherwise.

2.2.2.4 Reputable SSB members

A SSB may be composed of Shariah Scholars with tacit knowledge about the application of Islamic law; however they may not have formal qualifications from secular education institutions. Hussain and Mallin (2003) mentioned that the determining factors of the appointment of directors in Bahraini companies are relevant skills, business experience and reputation. This is the same case in the Sudanese context. In addition, Sudanese people strongly respect the Fatwas of reputable scholars. It is commonly accepted that reputation is regarded as a proxy for industry knowledge and hence reputable scholars with relevant degrees in Shariah and business are more likely to understand the current implications of Islamic banking, particularly with regards to disclosure (Farook et al., 2011). Hence, reputable scholars are more likely to emphasize CSR activities and the subsequent disclosure of CSR information.

A reputable scholar in Sudan is one that has a position in the Sudanese Academy of Islamic Figh, and membership of at least one Shariah board. Reputable SSB members in this conceptual paper are measured dichotomously, where a value of one (1) is assigned if there is a reputable SSB member and zero (0) otherwise.

2.2.2.5 IG- score as proxy for the effectiveness of a SSB

Some previous studies have combined corporate governance attributes into an index which attempts to capture their aggregate effect (Gompers et al., 2003; Hanlon et al., 2003). Studies conducted by Farook et al., (2011) and Grassa (2013) adopted the Islamic governance score for Islamic banks to capture the total effect of a SSB and its characteristics. The score sums the value of the dichotomous characteristics of the board as mentioned earlier. In this conceptual paper the authors use an IG-score as a proxy for the effectiveness of Shariah Supervisory Board (ESSB) and adopt the measures in the study of Grassa (2013) to construct the IG-score.

3. Conceptual framework

From Islamic perspective, the main purpose of Islamic financial institutions' reporting is to show that their operations are in compliance with the Shariah principles (Farook, 2008; Hannifa & Cooke, 2002). Unlike the western model where the primary objective of financial reporting is to assist the users in making their economic decisions (Maali et al., 2006). This purpose is derived from the objectives of a financial statement for Islamic banks and financial institutions set by AAOIFI (AAOIFI, 2008). Based on this concept, the Islamic community (Ummah) has the right to know the effect of the business operations on the community's welfare to ensure that they are in conformity with the Shariah requirements.

A review of previous studies indicates almost no theory development has occurred in relation to CSR disclosure of Islamic banks (Maali et al., 2006; Sadeghzadeh, 1995). Generally, the literature on Islamic banks suggests a priori probability that there are two major influences on the Islamic banks' CSR disclosure: the socio-political context within which the banks operate; and the economic opportunities available to Islamic banks (Farook et al., 2011).

The socio-political context influence is related to systems-oriented theories such as political economy, legitimacy and stakeholder theories (Campbell et al., 2003; Deegan, 2002). The political and social context has been found to be important determinants of the decision to disclose CSR information (Goodman et al., 2006; Roberts, 1992; Skouloudis et al., 2014; Watts & Zimmerman, 1990; Williams, 1999). The economic incentives viewpoint is consistent with research that explains CSR disclosure in the context of the agency theory (Adams, 2002, 2004; Archer et al., 1998; Bebbington et al., 2008).

System-oriented theories such as political economy, stakeholder and legitimacy propose that individuals, institutions and organizations seeking to preserve their own self-interest, will attempt to operate and interact within the system through various relationships with others (Goodman et al., 2006; Williams, 1999). The theories also suggest that the actors, in this system, have the right to pursue their own goals and self-interest. However, these rights of self-interest are moderated by the social and political environment in which they interact (Williams, 1999).

This idea is consistent with Islam whereby the concept of unity (Tawhid) prevails. According to the Tawhidi concept it is emphasized that Allah is the creator, owner and source of all things (Maali et al., 2006). Since the universe belongs to Allah, it is believed that Allah has entrusted mankind to the use of resources (Farook, et al., 2011). Thus, in return for the use of the physical universe, mankind agrees to be accountable for how the universe is used. This position of trust is the source of accountability for individuals and subsequently organizations. The trusteeship requires a total commitment to the will of Allah and therefore, involves both submission and a mission to follow the Shariah principles in all aspects of life, including economic aspects (Baydoum & Willet, 2000). However, Islam does not deny individual rights in relation to self-interest. Enjoyment of self-interest is only conditioned by the permanent needs of the Islamic community (Sadeghzadeh, 1995). As such, individual freedom is preserved only as long as it does not conflict with the larger societal interest or as long as the individual does not violate the rights of others. The conceptual basis of this implicit contract between the individual and greater society are emphasized in great length in the Qur'an and the teachings of Prophet Muhammad (peace be upon him).

Similarly, as defined by the proponents of the political economy, stakeholder and legitimacy theories; the relationship between individuals, organizations and society is consequently viewed as a "social contract" (Williams, 1999; Deegan, 2002). Organizations themselves play a significant role in society and have responsibilities assigned to them based on their status in society (Farook et al., 2011). According to Deegan, (2002, p. 292) "Organizations are exist only to the extent that the particular society considers that they are legitimate"; as a result, they continually seek to ensure that they operate within the bounds and norms of their respective societies (Deegan, 2002, P. 292). In this context, the concept of CSR is broadly defined by the Commission of the European Communities (2003) as "… enterprise is accountable for its impact on all relevant stakeholders. It is the continuing social commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large".

The concept of CSR in Islam likewise emerges from this "social contract" that necessarily has to do with the congruency of the value system of the organization to the larger value system of an Islamic community. As (Lewis, 2001, p. 113) indicated, the implications for business enterprises are that "both managers and providers of capital are accountable for their actions both inside and outside their firms. Accountability in this context means accountability to the community (Ummah) or society at large to establish socio-economic justice within their own capacity". A number of commandments in the Qur'an and the tradition of the Prophet Muhammad (peace be upon him) determine what must be done in order to establish socio-economic justice and therefore be socially responsible. Some examples of these are the obligatory payment out of income and wealth (Zakat), philanthropic trusts (Waqf), charity (Sadaqa), and interest-free loans (Qard Hassan). The forbiddance of Riba also stems out of the principles of socio-economic justice in Islam in that the objective is to disallow any unjust distribution of wealth through forced or undeserved loss to one party or unearned gain to the other party (fixed interest). Against that background, it is reasonable to conclude that Islamic businesses' values and norms are consistent in general with the definition of CSR (Farook et al., 2011).

To discharge their CSR, proponents of the political economy, legitimacy and stakeholder theories argue that corporations (management) provide CSR information as part of the dialogue between the corporation and greater society (Deegan & Islam, 2014; Gray et al., 1995; Thijssens et al., 2015). Even if the organization complies with society's expectations, organizational legitimacy can be threatened if an organization has failed to make disclosures that show it is complying with societal expectations (Deegan, 2002). Hence, managers need to demonstrate that they are complying with the "social contract" by disclosing information in line with society's expectations.

Although different obligations and responsibilities are due to different types of organizations in different contexts, the overall general framework for social responsibility and accountability in Islam is derived from Islamic teachings embodied in the detailed jurisprudence outlined in the Qur'an and the teachings of Prophet Muhammad (peace be upon him). Hence, the expectations of an Islamic community towards any organization that claims to be Islamic are unambiguous. Islamic banks are expected to disclose relevant CSR information to discharge their responsibility, and to earn legitimacy for their continued existence (Baydoum & Willett, 2000;

Sadeghzadeh, 1995). However, the expectation to disclose is only a necessary condition for disclosure.

In addition to the Islamic banks' embedded propensity as a collective religious obligation to be involved in social activities and subsequently disclose such information in their annual reports, the previous literature has revealed a strong relationship between some characteristics of a bank (for example; size, profitability and the Islamic investments) and the social disclosure level. These characteristics reflect the system-oriented theories and agency theory, whereby larger banks are highly exposed to political cost and have a high social visibility. By disclosing CSR information, larger banks aim to reduce political interference and demonstrate to the community their legitimacy in conserving Islamic values. Profitable banks have more resources to participate in CSR activities. The Islamic community expects more CSR initiatives from profitable Islamic banks that reflect their ethical accountability. By disclosing such information Islamic banks aim at legitimizing their position to their stakeholders. The Islamic investments proxies reflect the principal-agent relationship, as Islamic investors are principal and the banks' management acts as an agent, so the principal ought to know whether their funds have been used in accordance with Islamic Shariah and invested directly to socially visible investment projects.

In the context of Sudan, the majority of citizens are Muslims (around 97% of total population after the separation of southern Sudan). The government of the Republic of Sudan strictly requires Sudanese Islamic banks to adopt Islamic Shariah into their business transactions and practices, and encourages banks to direct the investments towards more socially visible and developmental sectors. Thus, the system-oriented theories and principal-agent relationship are considered the suitable theoretical foundation to explain the behavior of Sudanese Islamic banks to participate in social activities, and subsequently, CSR disclosure from the Islamic perspective.

As mentioned earlier, Islamic banks conduct their business in accordance with the principles of Islamic Shariah. To fulfil the requirements of the Shariah principles, Islamic banks employ a special form of monitoring to limit the differences of interest between Islamic investors and management (Farook et al., 2011). Ho and Shun Wong (2001) point out that, more governance mechanisms will strengthen the internal control of companies and provide an intensive monitoring package for a firm to reduce opportunistic behavior and information asymmetry. This view is consistent with the role and function of the SSB as described above.

Accordingly, Islamic banks will be under greater pressure from the SSB to comply with Islamic laws and principles and hence disclose more CSR information (Farook et al., 2011). In the case of Sudan, as mentioned earlier, each Islamic bank has its own SSB. However, the extent to which the SSB influences the CSR disclosure depends upon the characteristics of the corporate governance mechanism (Farook et al., 2011). Hence, a number of factors that relate to the SSB's characteristics (for instance; number of board members, cross-membership, secular education and reputable scholars) may determine how effectively the SSB undertakes its role and conduct its functions and subsequently influences the level of Islamic CSR disclosure by Islamic banks.

Previous studies have revealed the inconclusive findings in relation to a relationship between the banks' characteristics and social disclosure, whereby some studies have witnessed a positive relationship and others failed to provide such relationship, (see for example, Bannany, 2007; Farook et al., 2011; Hackston & Milne, 1996; Roberts, 1992; Skouloudis et al., 2014). Therefore, in this conceptual paper the effectiveness of the SSB is introduced as a moderator on the relationship between the characteristics of the banks and the level of social disclosure from the Islamic perspective in Sudanese Islamic banks' annual reports (see Figure 1).

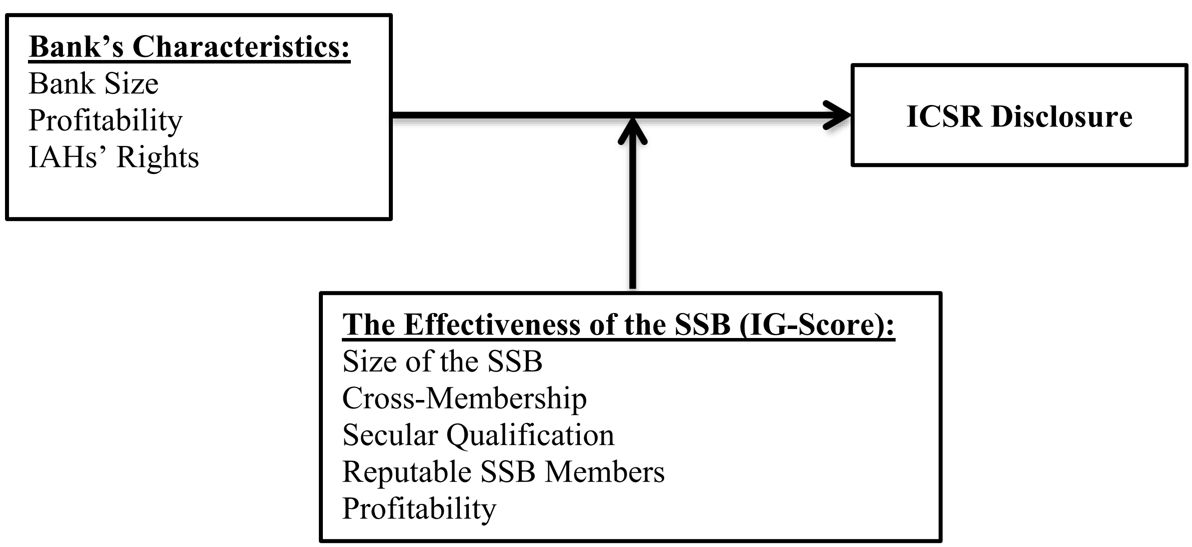

Figure 1: Proposed Conceptual Model

4. Propositions

The research model incorporates several relationships. The propositions are based on prior studies. Each of the propositions is stated in the alternative hypothesis form. The proposition is divided into two categories. The first category states the nature of the effect of one explanatory variable on the dependent variable, and the second asserts the moderating role of the effectiveness of the SSB. The hypothesized relationship, positive or negative is given in accordance with the measurement of the variables stated.

4.1 The relationship between a bank's size and CSR disclosure level

It is likely that an association exists between a bank's size and social disclosure practices (Bannany, 2007). Suchman,(1995, p. 574) defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions". In the same vein, Deegan and Islam (2014) emphasized that an organization is considered to be operating with legitimacy when its operations and activities are conformed to the 'social contract' that exists between the organization and the society in which it operates. In this regard, large banks might be more interested in fulfilling this assumption of legitimacy by disclosing information about their social activities in their annual reports to improve their image in the society and hence legitimize their existence (Amran et al., 2007). In addition, large banks are more politically visible and hence may be involved in social activities to avoid government interference. Furthermore, large banks are more capable of competing in the market and to obtain external funds; therefore, disclosing more social information might help in attracting more investors from different interest groups to invest in these banks.

A number of studies (Farook et al., 2011; Bannany, 2007; Hackston & Milne, 1996; Othman et al., 2009; Skouloudis et al., 2014) show a positive relationship between the size of the bank and the level of disclosure. However, based on Islamic Shariah principles of full disclosure and accountability, larger Sudanese Islamic banks are expected to contribute more in the activities of community and, therefore, may provide more social information in their annual reports to discharge their accountability to all groups of stakeholders, particularly the Sudanese community. Therefore, we can formulate the following proposition:

There is a positive relationship between Sudanese Islamic banks' size and the level of social responsibility disclosure from the Islamic perspective in annual reports.

4.2 The relationship between a bank's profitability and CSR disclosure level

Profitability has been used to explain the variation of voluntary disclosure between banks. It has been argued that when a firm's profitability is high, management is more willing to disclose detailed information (Aljifri, 2014).

The motivation of a profitable bank to disclose social information can be derived from the agency theory. It is suggested that managers of profitable companies disclose extensive information in order to show and explain to stakeholders that they are acting in their best interest. This will be the same case with Islamic banks, which are involved in social activities and communicate more social information in their annual reports. Similarly, the management of profitable companies may elect to disclose more information to the public to promote a positive impression of their performance (Galani et al., 2011). The principal-agent relationship supports this claim, as it argues that profitable organizations are most exposed to social pressure, and are most likely managed by skilled and insightful executives who can potentially foresee the benefits of social responsiveness (Ng & Koh., 1994; Skouloudis et al., 2014). Arshad et al. (2012) point out that CSR is an important business strategy that can drive performance and is related to behavior in organizations aiming for a continuous and superior level of performance.

Prior studies have revealed ambiguous results with respect to the relationship between social disclosure and profitability (Bannany, 2007; Hamid, 2004; Hackston & Milne, 1996; Skouloudis et al., 2014). These discrepancies may be attributed to the different measurements used by researchers in relation to a proxy for profitability. Some previous studies used return on equity and return on assets as proxies for a bank's profitability. Information about the return on assets is requested by the management-level of a company to evaluate to what extent the company has been successful in using their resources in achieving a profit, whereas information about return on equity is needed for the external and internal shareholders to make sure that the company is investing their money in the right way (Skouloudis et al., 2014). Hence, the return on equity is more relevant for internal and external use rather than the return on assets. As a result, in this conceptual paper the return on equity is used as a measure of a bank's profitability. Hence, the following proposition is postulated:

Profitable Sudanese Islamic banks have a tendency to disclose more Islamic social information in their annual reports.

4.3 The relationship between investment accounts holders' rights and CSR disclosure level

The structure of ownership has been found to have an influence on the level of monitoring and thereby the level of disclosure (Aljifri, 2014). A number of prior studies have examined the effect of the ownership structure on voluntary disclosure (Ahmed & Courtis, 1999; Alsaeed, 2006; Bannany, 2007; Dhouibi, 2013; Nandi & Ghosh, 2013).

According to the agency theory, ownership structure influences the disclosure level of companies as managers tend to disclose more information to avoid the potential agency cost. As interest-bearing deposits are not permitted by the rules and principles of the Islamic Shariah, Islamic banks typically raise deposits in the form of profit-sharing investment accounts.

Islamic investors are more likely to invest their funds as IAHs rather than as shareholders, since Islamic investors are primarily interested in the services that Islamic banks offer rather than share ownership of the Islamic banks itself. Furthermore, investment accounts with Islamic banks are generally more accessible than shares of Islamic banks. While the IAHs do not have any formal voting rights, they nevertheless influence the level of monitoring of management "vicariously" through shareholders (Archer et al., 1998). This is due to the fact that the profits of shareholders are determined by the profits earned through the utilization of IAHs' funds. If the IAHs are more interested than the shareholders in the bank's compliance with Islamic laws and principles, then the relative influence of the IAHs will determine the extent to which the bank complies with Islamic laws and principles and consequently the level of disclosure presented by the bank (Farook et al., 2011). Based on the above-mentioned argument, the following proposition related to the situation of Sudanese Islamic banks is stated:

There is a positive association between the proportion of IAHs' funds to shareholder funds in Sudanese Islamic banks and the level of CSR disclosure in annual reports.

4.4 The relationship between the banks' characteristics, effectiveness of Shariah supervisory board and SCR disclosure level

A number of Islamic banks employ a special form of monitoring to limit the divergence of interest between Islamic investors and the management of the Islamic bank. This monitoring mechanism is the Shariah Supervisory Board (SSB), which provides assurance to investors of the compliance of Islamic banks with Islamic Shariah principles. The demand for the services of a SSB arises out of a "perceived need to constantly check innovations in banking and accounting practice against the principles of Islamic Shariah" (Karim, 1995). The Islamic Fatwas of the members of the SSB are considered to be unsullied (Karim, 1990; Rahman et al., 2011). Since the SSB is employed to ensure compliance of an Islamic bank to Islamic Shariah principles, Islamic banks would be under greater pressure from the SSB to comply with Islamic laws and principles and hence disclose more CSR information. Sudanese Islamic banks are required by regulation to employ a SSB as mentioned earlier. However, while the existence of the SSB may lead to greater monitoring and thereby greater disclosures of CSR information, the degree to which the SSB would influence CSR disclosures may also depend on the characteristics of the corporate governance mechanism (Hannifa & Cooke, 2002; Ho & Shun Wong, 2001). Hence, a number of factors that relate to the SSB's characteristics may determine how effectively the SSB carries out its functions and subsequently determines the level of CSR disclosure by Islamic banks. These characteristics are:

Number of board members-An increase in the number of SSB members may lead to higher levels of CSR disclosure as the capacity for monitoring increases with an increased number of board members. With regard to the minimum number of members of any SSB, the AAOIFI standards have required at least three members. This is a common requirement in many Islamic banks. Accordingly, the greater the number of members in the SSB, the greater the amount of monitoring, implying a greater level of compliance with Islamic laws and principles (Farook et al., 2011). In this way, the SSB would be able to allocate its functions across a larger group of members, allowing the SSB to review more aspects of the banks' activities and hence ensure greater compliance. One aspect of this compliance is more CSR disclosure. The AAOIFI recommends a number of different people from different professions to sit on the SSB, including bankers, economists and full-time member(s) (AAOIFI, 2008). This allows for the implementation of diverse perspectives on the application of the Shariah law and principles. In this regards, a large SSB would be required to represent these sectional professions. The above analysis suggests that the size of the SSB should have a positive relationship with CSR disclosure.

***Cross-memberships*-**The literature suggests that cross-directorships increase transparency by utilizing the knowledge gained from different companies and employing the decision made in one board as part of information for decision in other boards (Hannifa & Cooke, 2002). SSB members with cross-memberships will be exposed to more discussions about the application of Islamic law in banking. This increased level of experience should enhance their knowledge about the application of Islamic principles to corporate reporting and in particular to CSR disclosure.

***Secular education qualifications*-**In the extant literature, the director's education has been proposed to influence the level of disclosure. Previous studies indicate that an increased educational level of SSB members has a corresponding increase in the level of CSR disclosure by Islamic banks (Abdullah et al., 2013; Farook et al., 2011). In addition to the Shariah qualifications, SSB members should have secular knowledge; mainly commercial law, economics, financial and accounting practices, which will enable them to know and solve problems relating to law and economics because such issues in many cases are overlapping. Abdullah et al. (2013) concludes that for any managers of Islamic banks who seek to improve their CSR disclosure, they should have SSB members who have sufficient knowledge and skills regarding the banking sector and invest more in the banking controlling mechanisms, such as greater education and training of SSB members. Hence, scholars with a doctorate degree in business and economics are arguably better informed in relation to the current implications of Islam for financial institutions, particularly with regards to CSR disclosure.

***Reputable scholars*-**Shariah scholars enjoy an excellent reputation in their community because they are more knowledgeable about Islam as well as more credible in the Islamic community. Therefore, they have a significant role in that society. Even those with less experience of secular educational institutions have a recognized reputation as a proxy for business knowledge (Farook et al., 2011). Consequently, scholars who have a good reputation will be better positioned to deal with the modern application of the banking industry regarding CSR disclosure. Studies of Abdullah et al. (2013) and Farook et al. (2011) emphasized the role of the scholars' reputation as a determinant of CSR. Therefore, reputable scholars are expected to convince the managers of Islamic banks to involve in CSR activities and disclose more social information.

IG-score-A numbers of previous studies have combined corporate governance factors into an index which attempts to capture their aggregate effect. Farook et al. (2011) and Grassa (2013) have applied the same reasoning, and developed an Islamic governance score (IG-Score). The score sums the value of the dichotomous characteristics of the board. It does this by examining the existence of the SSB, the number of SSB board members, the existence of SSB members with cross-memberships, the existence of SSB members with doctoral qualifications and the existence of reputable scholars presiding on the SSB board. Farook et al. (2011) found that the existence of SSB members with cross-memberships, doctoral qualifications, and/or international reputation results in greater monitoring and hence greater compliance with Islamic Shariah law and principles, an output of which is higher levels of CSR disclosure.

Likewise, Abdullah et al. (2013) indicated a positive relationship between the overall score of the SSB and the level of CSR disclosure. Hence, it can be argued that Islamic banks that have an effective SSB tend to disclose more CSR information in their annual reports. Farook et al. (2011) mentioned that there are a number of factors which influence (positively or negatively) CSR disclosure by Islamic banks including socio-political and economic factors. So, increasing the level of monitoring within the banks, such as the installation of a SSB can counter the negative impact and lead to greater CSR disclosure. Therefore, this conceptual paper introduces the IG-Score as a proxy for the effectiveness of the SSB as a moderating variable which affects the relationship between a bank's characteristics (size, profitability and investment accounts holders' rights) and the level of CSR disclosure in Sudanese Islamic banks. Accordingly, the following propositions are stated:

The positive relationship between a bank's size and the level of CSR disclosure will be stronger if the SSB is more effective.

The effectiveness of the SSB is a moderator in the relationship between the profitability of the bank and the level of CSR disclosure, such that profitable Sudanese Islamic banks with a less effective SSB, the effect is negative and those profitable banks with more effective SSB, the effect is positive.

The higher the proportion of IAHs' funds to shareholders equity, the higher the CSR disclosure level if the SSB is more effective.

5. Research methodology

5.1 Methods for collecting and analysing literature

This conceptual paper is based solely on a review and analysis of research and data from the literature. Several methods were used to collect and analyse the literature.

Firstly, research was conducted using the Google search engine. Terms such as CSR disclosure in Islamic banks and Islamic Financial Institutions, Shariah Supervisory Board and CSR disclosure and firms' characteristics and CSR are utilised.

Secondly, researches on five databases pertaining to social sciences were examined using the Universiti Sains Malaysia's search engines. These databases were Emerald, EBSCOHost, Spring-Link, JSTOR, and Springer LINK. In addition, two books related to this conceptual paper were obtained for further reading.

5.2 Data collection, data sources and data analysis techniques for future research

This is a conceptual paper that is based solely on a review of literature on the relationship between the banks' characteristics and CSR disclosure from the Islamic perspective and the role of the effective SSB as a moderator. For future research a quantitative study could be conducted to obtain data on CSR disclosure practices and measure the research variables. A quantitative method could be applied because the research questions would be a causal one. For example, a question could be posed: what is the effect of the banks' characteristics on the level of CSR disclosure in the annual reports of Sudanese Islamic banks?

The procedures for conducting research would be to create a valid disclosure index that measures the level of CSR disclosure in Sudanese Islamic banks from the Islamic perspective. Pertaining the measurement of independent and moderating variables, the researchers recommend following the works of Bannany, (2007), Farook et al. (2011) and Skouloudis et al. (2014).

The unit of analysis ought to be the annual reports of Islamic banks in Sudan with the sample population to be studied comprising all of the Sudanese Islamic banks that have their own SSBs. Accordingly, the sample size will comprise 30 Sudanese Islamic banks which almost represents the whole population, as there are just 32 Islamic banks working in Sudan.

6. Conclusion

The literature was useful for understanding the topic of this conceptual paper, as it allowed the researchers to draw a conclusion about the relationship between the banks' characteristics and the level of Islamic social responsibility disclosure in the annual reports of Islamic banks and the moderating role of an effective SSB in this relationship.

This conceptual paper sought to explore previous literature which dealt with social information disclosed in the banks' annual reports from the Islamic perspective. This paper has concentrated on Islamic banks as Islamic banks are founded as a collective religious obligation to act on behalf of the Islamic community (Ummah). As a result, they should fulfil an ethical role in their character as Islamic banks. This paper aims to investigate the influence of the banks' characteristics on the level of disclosure. In addition, it intended to ascertain the moderating role of an effective Shariah Supervisory Board (SSB) on the relationship between the banks' characteristics and the level of CSR disclosure in their annual reports. This conceptual paper concentrated on the annual reports because it has been widely recognised that the annual reports are regarded as the main medium by which companies disseminate information to the external users.

The analysis of previous studies revealed that larger banks, which are more visible to the public, are more exposed to political interference, and as such disclose more Islamic social information in their annual reports to avoid potential political cost, such as exploitation and the imposition of extra taxes, and at the same time retain their legitimacy in the Islamic community in meeting collective religious obligations (Bannany, 2007; Maali et al., 2006). In addition, profitable Islamic banks are highly exposed to social pressure and hence are managed by skilled directors who are aware of the importance of involvement in social activities to maintain the current level of profitability, and subsequently improve potential profitability (Arshad et al., 2012). This result is supported by the agency theory and the stakeholder theory. Furthermore, IAHs' rights are found to significantly influence CSR disclosure by Islamic banks as Islamic banks have intent to make this type of disclosure to bond their activities as an agent to Islamic investors as principals (Farook et al., 2011).

Finally, from the analysis of previous literature the IG-score (in the current paper represents the effectiveness of the SSB) is found significantly and positively influence the CSR disclosure level. Studies reviewed in this conceptual paper revealed that those Islamic banks which have more SSB members and the presence of SSB members with cross-membership, doctorate qualifications and/or an international reputation results in a greater level of monitoring, and compliance with Islamic Shariah laws and principles and leads to the disclosure of more CSR information (Abdullah et al., 2013; Farook et al., 2011). Therefore, an effective SSB is regarded as a good Islamic governance mechanism that can monitor and direct managers of Sudanese Islamic banks towards conducting CSR activities and disclose social information in their annual reports. As a result, the researchers emphasize that the presence of an effective SSB in Islamic banks would enhance the relationship between the characteristics of the banks and the level of CSR disclosure in the Sudanese Islamic banks' annual reports.

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