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Factors influence the compliance level of Shariah Responsibility Disclosure (SRD) in Malaysian Islamic Banks

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Abstract

This study investigates the factors influence the compliance level of Shariah responsibility disclosure among Malaysian Islamic Banking. Islamic Financial Institutions (IFIs) are engaging in product development activities to cater the needs of a wide range of users. IFI introduced the Shariah Committee in all Islamic banks and Islamic Banking Scheme, banks in order to guide and ensure the compliance with the Shariah principles and Shariah responsibility disclosure. This study examines the relationship between bank's size, financial performance and listing status towards the Shariah responsibility disclosure. By using a simple sampling method, 16 Malaysian Islamic Banks were selected for inclusion in the study based on its annual reports from 2008 until 2012. The result showed that bank's size and financial performance are the significant factors and positively associate towards the Shariah responsibility disclosure. The study also finds that, there is a significant negative association between ownership status and the Shariah responsibility disclosure. The finding of this study would provide better understanding of the factors influence the compliance level of Shariah Responsibility Disclosure among Malaysian Islamic Banking.

Keywords: Islamic Banking, Islamic Financial Institutions, Shariah Responsibility Disclosure.

1. INTRODUCTION

Shariah refers to the Islamic law and principles that regulate all matters of the lives of Muslims as conducted by humans. Shariah compliant can be described as the provision and use of financial services and products that comply with Islamic religious practices and principles (Cihak & Hesse, 2010). Shariah can be defined as a divine law exhibit by Allah S.W.T to the holy Prophet Muhammad S.A.W. There are two main sources of Shariah law and principles, namely al-Qur'an and al-Sunnah which is the deeds and sayings of the holy Prophet Muhammad S.A.W. (Kadir, 2009). Besides that, Shariah law can depend on the Ijma'a (consensus) and Qiyas (analogy) (Kadir, 2009) from members of Sunnah and Ijma'a if the issue arises is not discussed in the primary sources. Therefore, in preventing any practices or activities of Islamic banks which do not abide by the Islamic ethical standard, Islamic banks are expected to establish a Shariah Supervisory Council (SAC) (Besar, Sukor, Muthalib & Gunawa, 2009; and Laldin, 2008). The establishment of SAC is also stated in part II under section 13A (1) of the Islamic Banking Act 1983 which reads "An Islamic bank may seek the advice of the Syariah Advisory Council on Shariah matters relating to its banking business and the Islamic bank shall comply with the advice of the Shariah Advisory Council (Islamic Banking Act 1983)".

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There was a lot of research published in association between firm characteristics and the level of disclosure in overall, however; there is still a lack of research in the area of determinant influence of Shariah responsibility disclosure (SRD) compliance. For example, Sayd Farook, Kabir Hasan & Roman Lanis (2011) investigated determinants of Islamic banks' social disclosures. Meanwhile, Kadir (2009) investigates the disclosure of corporate environmental responsibility in the annual report of Shariah compliant companies. Nonetheless, a study by Paino, Bahari & Abu Bakar (2011) examined the level of Shariah disclosure compliance among Malaysian Islamic banks (MIBs) but they did not focus on the factors contributed to Shariah disclosure. Thus, this study attempts to explore the factors influence SRD compliance as enhance evidence on literature association of disclosure level. Shariah compliance is not only restricted to the product and services offered, but it is also important for IFIs in complying with the provision of the Islamic Banking Act 1983, Companies Act 1965, Shariah requirements and other Bank Negara Malaysia Guidelines. In this study, SRD is proxies by eleven elements of disclosure according to CBM guidelines. In broad terms, SRD is actually a measurement of the level of a bank's compliance toward the information disclosed in the annual report. All the eleven elements should be disclosed in the annual reports which cover the financial and non-financial information. Furthermore, the study is motivated by the lack of literature on disclosure in the Malaysian context, particularly on SRD of MIBs. Therefore, this study is aimed to contribute towards the knowledge and understanding to the bank specific characteristics of Malaysian Islamic banking which influence their SRD and in extending the Malaysian disclosure literature. In 2013, there were 16 Islamic registered banks under the Central Bank of Malaysia website that were licensed as shown in Table 1.1

Table 1.1: List of Malaysian Islamic Banking

No	Name of Islamic Banks	Ownership
1	Affin Islamic Bank Berhad	Local
2	Alliance Islamic Bank Berhad	Local
3	AmIslamic Bank Berhad	Local
4	Bank Islam Malaysia Berhad	Local
5	Bank Muamalat Malaysia Berhad	Local
6	CIMB Islamic Bank Berhad	Local
7	Hong Leong Islamic Bank Berhad	Local
8	Maybank Islamic Berhad	Local
9	Public Islamic Bank Berhad	Local
10	RHB Islamic Bank Berhad	Local
11	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
12	Asian Finance Bank Berhad	Foreign
13	HSBC Amanah Malaysia Berhad	Foreign
14	Kuwait Finance House (Malaysia) Berhad	Foreign
15	OCBC Al-Amin Bank Berhad	Foreign
16	Standard Chartered Saadiq Berhad	Foreign

The purpose of this study is to examine this issue more deeply. Furthermore, this study is conducted in Malaysia since a lot of research regarding Shariah compliant was done in some developing countries such as the East Asian country in Egypt and Jordan (Saleh & Zeitun, 2006). A few studies were conducted in developing and emerging countries like Malaysia. Hence, this study can examine the situation in Malaysia whether Malaysian Islamic banking really implement what has been required by the guidelines for Shariah compliant banks. However, this study does not investigate the actual practices of Shariah compliance within the MIBs, but it draws only on the information presented in their annual reports. This study aims to examine the factors influencing the SRD compliance evidence from MIBs. This study explores in detail the factors which influence the SRD as proxies by the financial performance of bank, bank size, and bank listed status. Furthermore, this study looks at the annual report of the Islamic banks and the analysis focuses on the elements of SRD for the Islamic banks as guided by CBM guidelines. All the Islamic banks in table 1.1 were used as samples for this study. The findings of this study are also important as indicators of the SRD; whether the MIBs are fully compliant with all aspects of Islam and CBM guidelines. This study will also contribute as an evidence of the determinant of factors influence such as bank financial performance, bank size, and bank listing status in SRD compliance towards MIBs.

2. LITERATURE REVIEW

2.1 Malaysian Islamic Banking

In Malaysia, Islamic banking has been practiced since 1983 with the establishment of the first Islamic bank namely Bank Islam. In 1993, commercial banks, merchant banks and finance companies began to offer Islamic banking products and services under the IBS banks. In 2013, there are 16 Islamic bank and 5 International Islamic Banks that are listed in Bank Negara Malaysia. Presently, Malaysia has a significant number of full-fledged Islamic banks, including several foreign owned entities, conventional institutions who have established

Islamic subsidiaries and also entities who are conducting foreign currency business. The principal philosophies of Islamic banks are aiming to distribute justice that is free from all forms of exploitation especially to their customer. Thus, the importance of Shariah in business is its emphasis on the concept of justice, goodwill and honesty and its prohibitions on uncertainties, exploitation and fraud to their user (Hamid, Craig & Clarke, 1993).

2.2 Shariah Responsibility Disclosures

Shariah is defined as a blueprint of an ideal Islamic society, concerning the practical aspects of being a Muslim and his faith and belief (Sulaiman, 2003). Shariah should be based on three fundamental principles that comprise Tawhid (Unity), Khilafah (Vicegerency) and Adalah (Justice). Hence, it is important to IFIs to align their economies, according to Shariah rules and principles. In addition, Hamid and F. Clarke (1993) believed that the more financial support provided to Islamic compliant business, the businesses conducted strictly align with Islamic principles will be increasing. Haniffa (2002) stated that the Islamic perspective of disclosure consists of two general requirements which are social accountability and full disclosure. The concept of social accountability is associated with the principle of full disclosure by providing the main objective to serve the public interest (Rohana, Azlan & Erlane, 2009). In addition, Maali, Casson & Napier (2006) notes full disclosure can be described as the situation where companies having to disclose all the necessary information relating to their activities, even though the possibility of such information being adverse for the company condition. Therefore, one of the ways to provide full disclosure information in the context of Islam religion is through the SRD compliant. By doing that, it can assist the users in making better decisions in terms of economic and religious. In other words, SRD can be a mechanism to MIBs in improving their transparency of business activities by disclosing more information in the annual report, particularly to Muslim stakeholders. Therefore, in this study, SRD becomes a dependent variable.

2.3 Bank Size

Numerous studies have found positive association between company size and the level of disclosure in both developing and developed countries (Craig & Diga, 1998; Ahmed & Nicholls, 1994; and Cooke 1989a, 1992). In the same way, a finding shows the same result that is positive relationship between the size of companies and the environmental disclosure (Haddock-Fraser & Fraser, 2008; Stanny & Elly, 2008; and Patten, 2005). A study by Souissi and Khlif (2012) also found that larger firms have stronger motivations to disclose more information. Several of prior empirical studies indicate that, there is strong relationship between firm size and disclosure (Rettab, Brik & Mellahi, 2009; Zakimi & Abdul Hamid, 2009; Khalid, 2006; and Gray, 2001). For example, findings by Zakimi and Abdul Hamid (2009) found that the firm size has a positive association with the amount of social disclosure made by firms. However, in a quantitative study by Nagib Salem Bayond, Marie Kavanagh and Gcoff Slougher, (2012), the results show that company size does not affect the level of Corporate Social Responsibility Disclosure (CSR) in Libyan companies but it contrast with the results in qualitative findings, which indicate that company size is positively associated with the level of CSR. With regard to the study on the relationship between the size of the bank and disclosure level, some researchers found that the larger companies as measured by total assets would provide strong relationship with the level of disclosure to represent themselves as a good citizen in performing their social responsibility (Ousama & Fatima, 2006; Mohd Shatari, Muhd & Mohamad Zain, 2004; Romlah, Takiah & Jusoh, 2003; Ho & Matthews, 2002; and Mohamed Zain, 1999). Based on the results mentioned above, it is evident that size of firm influences the overall level of disclosure. Therefore, this study attempts to examine the relationship between bank sizes as proxy by total assets with the level of SRD compliance.

Much evidence from previous studies have supported that size of firms does influence the level of disclosure of companies. According to Brammer and Pavelin (2006), they suggested that the larger the firm, the more likely they will disclose the information. The result of prior study found that the managers of larger companies are more likely to realize the possible benefits when they disclose more information in the annual report. It is in contrasts with smaller companies which regard the full disclosure of information could jeopardize their competitive position (Watson, Shrivs & Marston, 2002; and Ho & Wong 2001). On the other hand, larger companies are more likely to disclose the information because they are more exposed to public scrutiny than smaller companies (Khalid, 2006). Moreover, Elie Menassa (2010) also found a positive relationship between bank size as a proxy by total asset and the level of CSR disclosure by Lebanese commercial banks. Hence, the impact of firm size is expected to positively influence the extent of SRD compliance. In this study, total assets will be used as the measurement of bank size (similar to Elie Menassa, 2010; Othman et al., 2009; and Ousama & Fatima, 2006). In this study, it is expected that a bank with larger size would likely to disclose higher level of SRD compliance. Therefore, the following hypothesis have developed:

H1: Shariah responsibility disclosure of Malaysia Islamic banks is positively related to the size of the bank (proxies by total assets).

2.4 Financial Performance

Due to lack of study about the relationship between financial performance and level of SRD compliance, this study will analyse the results found by prior studies about the extent of disclosure and financial performance (measures by profit after tax, ROA and ROE) determinant regarding to their objective of the study. The previous results from disclosure perspective will be compared to the results of the current study to identify whether there is an association or not. There are many studies that examine the extent of disclosure of the Islamic Financial institutions worldwide (Sayd Farook et al., 2011; Ousama & Fatima 2010; Kadir 2009, Maali et al., 2006; and Al Baluchi 2006). Al-Baluchi (2006) examined the factors that influence the disclosure of annual reports in Islamic banks. The results found out that there is positive relationship between board composition, mudarabah investment account holders' profitability, the level of mudarabah investment account, and the level of voluntary disclosure. However, this study mainly focuses on disclosure in relation compliance to the AAOIFI standards. The present study, on the other hand, will examine the factors that have a potential relationship with the disclosure on the SRD compliance in the Malaysian Islamic banking annual reports to the guidelines set by CBM. The measures of performance used in this study are the profit after tax and zakat, return on asset (ROA) and return on equity (ROE). Profit after tax and zakat is defined as the net income accrued to the bank from its operating activities after deducting with zakat and tax. Meanwhile, both measures of overall performance of ROA and ROE are calculated manually by using the same formula as calculated by RAM Ratings in the Bank Islam Malaysia Berhad, 2010. It is important for this study to refer only a formula as benchmarking to others. The result of ROA indicates the profit earned per asset and it also reflects the management's ability to utilise the bank's financial resources to generate profits (M.Bashir, 2003). ROE, along with return on assets (ROA), is most widely used to measure overall of corporate financial performance (Rappaport, 1986). On the other hand, ROE is calculated as Profit before Tax and Zakat divided by Total Average Equity. ROE is indicative of how effectively a bank management is using shareholder's funds.

Numerous researchers have found positive relationship between financial performance and overall level of disclosure (Rehana Kouser & Irum Saba 2012; Mohammed, 2008; and Al-Baluchi 2006). In general, management of profitable company tend to disclose a greater number of information because they feel proud of company's achievement and assume the more information disclosed, the more they can promote positive impression of its performance at the same time (Khalid, 2006). A study done by Haniffa and Cooke (2002) found a positive and significant relationship between the firm's profitability and the extent of voluntary disclosure. However, having the same objective, study by Abdur Rouf and Abdullah (2011) found the significant but not positive result in respect of profitability of firm as proxy by on percentage of net profit in the extent of voluntary disclosure. It can conclude that, the higher profitability motivates management to disclose more information because it will increase investor's confidence and at the same time enhances the management compensation too. Saleh and Zeitun (2006) suggested both measurement of performance ROA and ROE have a positive sign in banks performance. The result is consistent with the result found by Elie Menassa (2010). Since most of the studies support the fact that there are positive association between financial performances which the profitability and disclosure are conducted in financial disclosure field, then the hypothesis of this study would also be in the form of positive association. Therefore, the following hypothesis is developed:

H2: Shariah responsibility disclosure of Malaysia Islamic banks is positively related to the financial performance of the bank (proxy by profit after tax and zakat, ROA and ROE).

2.5 Listing status

Study conducted by Kamran, Ahmed & Curtis (1999), investigated the relationship between corporate characteristics and disclosure in annual report since. There are a lot of studies conducted about the association of listing status (Despina, Efthymios & Atonios, 2011; Sussane Arvidson, 2003; and Movena & Lena, 2000). Sussane Arvidson (2003) claimed that as compared to domestically listed companies, internationally listed companies did not disclose more information in annual report. This is consistent with a study by Buzby (1975) that found that the level of disclosure between listed and unlisted counterparts does not contradict. However, result found by Shingvi and Desai (1971) shows Stock Exchange listing status to be significantly influence the level of disclosure. It is supported by subsequent study which also found a significant association between listing status of a company and disclosure (Hossain, Tan & Adams, 1994; Wallaca, Naser & Mora, 1994; and Hossain, Perera & Rahman, 1995). According to listing status, corporation ownership is generally related to the company's demand for external funds. A good relationship between the corporation and its stakeholders could

promote better opportunities towards external financing. According to Adhikari, A. Smith, J. and Tondkar, R (2005) the listing status appears to be related to the country in which the stakeholder orientation are expected to provide a higher level and quality of social disclosure in their annual reports compare to firms in countries with a shareholder orientation. According to Schipper (1991), larger listed firms involve stronger incentives to disclose more information in order to get better in their corporate standing and public representation since non-disclosure may be indicates as bad news that could influence firm value. However, the determinant of listing status include the disclosure pressured stemming from listing requirements (Sussane Arvidsson, 2003). Evidence from previous study, Elie Menassa (2010) revealed the relationship between listing status with the level of social disclosure which is insignificantly related. Based on the statement gathered from SRD perspective, MIBs consists of unlisted status in Bursa Malaysia; as mention previously in this paper, this institution is still in their development stage since most of MIBs are still in the process of establishing their position. However, both listed and unlisted Malaysian Islamic banking are required to follow several rules and regulation according to Shariah principles for preparing their financial statement. This paper investigates the merits of this statement in Malaysian Islamic banking sector and argues that listed firms might exhibit stronger ethical and social awareness, hence:

H3: Listed Malaysia Islamic banks provide more Shariah responsibility disclosure than non-listed banks (listing type proxy by the listing status at Bursa Malaysia)

3. METHODOLOGY

3.1 Sample and sources of data

This research was conducted using secondary data collected from the annual reports of all 16 Islamic banks for the period from 2008 to 2012. All information needed is taken directly from annual report of 16 Islamic Banks. 16 Islamic banks consist of Affin Islamic Bank, Al Rajhi Banking & Investment, Alliance Islamic Bank, AmIslamic Bank, Asian Finance Bank, Bank Islam Malaysia, Bank Muamalat Malaysia, CIMB Islamic Bank, Hong Leong Islamic Bank, HSBS Amanah Malaysia, Kuwait Finance House Malaysia, Maybank Islamic, OCBC Al-Amin Bank, Public Islamic Bank, RHB Islamic Bank, and Standard Chartered Saadiq Bhd. ROA and ROE were calculated manually by referring to Financial Institutional Ratings formula in order to standardize formula for 16 Islamic banking chosen (RAM Ratings, Bank Islam Malaysia Berhad, 2010). This research identify “Shariah Responsibility Disclosure” as a dependent variable influence by several independent variables consist of Size, Bank Financial Performance, and Bank Listing Status (listed or non-listed). In this research, content analysis was chosen as a systematic method (Nagib et al., 2012) that most commonly used to examine written material contained in annual reports. Besides that, multiple regression models are undertaken to provide the conclusion about relationship of the explanatory power of the bank’s characteristics on the level of the SRD and to test the hypotheses. The methodology underlying this study is a content analysis to the extent of disclosure on assessing compliance with three factors influence of SRD compliance among Islamic banking industry in Malaysia. Factors influence the SRD is measured using the provision as outlined by CBM guidelines as bases as shown in table 3.1.

Table 3.1: Eleven elements of SRD

No	Elements of Shariah Responsibility Disclosure
1	Performance overview and statement of corporate governance
2	Roles and responsibilities of SAC
3	SAC compositions
4	SAC remunerations
5	Zakat obligations
6	Zakat amount
7	SAC reports
8	Profit Equalization Reserves (PER)
9	Classification of deposits from customer i.e., Mudharabah and Non-Mudharabah
10	Placement from banks and other institutions
11	Details presentation of Income Statement on sharing of deposits and profits

4. RESULTS AND DISCUSSION

4.1 Results of Descriptive Analysis

Table 4.1 is showing the result for the descriptive statistics for all the variables of interest and illustrated the perceived effect of the explanatory independent variables on level of SRD. The highest means score are comprises of elements SAC compositions, SAC reports, classification of deposits from customer, placement from banks and other institutions, and details presentation of Income Statement on sharing of deposits and

profits. While, the lowest score for these elements is zakat amount, in average, only 82% of 16 MIBs disclosed this information with 38.2% standard deviation.

Table 4.1 Descriptive Analysis

Dependent Variable	Descriptive Statistics for All Variables			
	Minimum	Maximum	Mean	Std.D
PERF	0	1	0.95	0.219
ROLES	0	1	0.95	0.219
COMP	1	1	1.00	0.000
REMU	0	1	0.99	0.112
OBLIG	0	1	0.98	0.157
AMOUNT	0	1	0.82	0.382
REPORT	1	1	1.00	0.000
PER	0	1	0.91	0.284
CLASS	1	1	1.00	0.000
PLACE	1	1	1.00	0.000
DETAILS	1	1	1.00	0.000
Independent Variable				
Total Asset	6.26	7.91	7.0442	0.37570
Profit After Tax and Zakat	3.35	5.64	4.8474	0.47841
ROA	-0.80	0.61	-0.0120	0.24598
ROE	-16.06	39.17	13.3927	10.49096
Listing Status	0	1	0.06	0.244

Note. This table presents descriptive statistics for all variables of interest (Performance overview and statement of corporate governance (PERF), roles and responsibilities of SAC (ROLES), SAC compositions (COMP), SAC remunerations (REMU), zakat obligation (OBLIG), zakat amount (AMOUNT), SAC report (REPORT), Profit Equalization Reserves (PER), Classification of deposits from customer (CLASS), Placement from banks and other institutions (PLACE), details presentation of Income Statement on sharing of deposits and profits (DETAILS), Size (Total asset), Financial Performance (Profit after Tax and Zakat, ROA, ROE), and listing status.

In this study, the statistical analysis techniques which include multiple Ordinary Least Square (OLS) regression model based on the transformation of the continuous independent variables to normal scores is adapted to investigate the association between the dependent variable (i.e., SRD) and independent variable (i.e., SIZE, FINANCIAL PERFORMANCE, and LISTING STATUS). The regression models are used for the purpose of determining how well explanatory independent variables in this study predicted the dependent variable. This means how well the bank size, financial performance, and listing status predicted the SRD compliance level. Based on the discussion above, the following OLS regression model is to be fitted to the data in order to assess the association of each variable on the disclosure level in overall:

$$SRD = \alpha + \beta_1 SZE + \beta_2 PERFORMANCE + \beta_3 LISTING + \varepsilon$$

Where SRD represents the dependent variables (performance overview and statement of corporate governance, roles and responsibilities of SAC, SAC compositions, SAC remunerations, Zakat obligations, Zakat amount, SAC report, profit equalization reserves, classification of deposits from customer i.e., Mudharabah and Non-Mudharabah, placement from banks and other institutions, and details presentation of Income Statement on sharing of deposits and profits), SIZE refers to the size of the firm that was measured by total asset (Mohd Shatari et al., 2004; and Ousama & Fatima, 2006), PERFORMANCE refers to financial performance of banks that was measured by Profit after tax and zakat, ROA and ROE (Elie Menassa, 2010; Saleh & Zeitun, 2006; and M.Bashir, 2003), and LISTING refers to listed and unlisted status at Bursa Saham Malaysia (Galani et al., 2011), α refers to regression intercept (Ousama & Fatima, 2010), β is the coefficient of the independent variables (Nagib et al., 2012), and ε refers to error term.

4.2 Regression Analysis

Based on the result in Table 4.1, five out of eleven elements achieved 100% disclosure compliance. Since the five elements are constant and has been deleted because statistics cannot be computed, therefore, the remaining elements will be using in the multivariate regression analysis comprises of performance overview and statement of corporate governance, roles and responsibilities of SAC, SAC remunerations, Zakat obligation, Zakat amount and profit equalization reserves in order to test their relationship with explanatory independent variables.

Table 4.2 provides the empirical results of the regression analysis for the performance overview and statements of corporate governance index (Model 1). The results show that the total asset, profit after tax and zakat, and ROA are statistically significant ($p < 0.05$, $p = 0.10$, and $p < 0.10$, respectively) (Ousama & Fatima, 2010) with the hypotheses direction. In contrast, ROE and listing status was found not to be statistically significant. Thus, the results of financial performance indicate that as proxies by profit after tax and zakat and ROA have

association between the levels of SRD regarding to elements in Model 1. Meanwhile, the empirical results of the regression analysis for Model 2 (roles and responsibilities of SAC).

Table 4.2: Multiple Regressions

Model No.	Variables	Coefficients	Std. Error	t-statistics	Sig.t	VIF
1	Constant	-0.883	0.488	-1.808	0.075	
	Total asset	0.392	0.090	4.347	0.000	2.504
	Profit after tax and zakat	-0.180	0.079	-2.280	0.026	3.103
	ROA	0.274	0.147	1.861	0.067	2.859
	ROE	0.000	0.003	0.092	0.927	2.590
	Listing	0.077	0.094	0.823	0.413	1.146
2	Constant	1.955	0.485	4.031	0.000	
	Total asset	-0.058	0.089	-0.653	0.516	2.504
	Profit after tax and zakat	-0.150	0.078	-1.919	0.059	3.103
	ROA	0.038	0.146	0.262	0.794	2.859
	ROE	-0.003	0.003	-0.927	0.357	2.590
	Listing	-0.076	0.093	-0.815	0.418	1.146
3	Constant	0.948	0.261	3.638	0.001	
	Total asset	-0.019	0.048	-0.392	0.696	2.504
	Profit after tax and zakat	0.037	0.042	0.879	0.382	3.103
	ROA	0.211	0.078	2.686	0.009	2.859
	ROE	-0.003	0.002	-1.714	0.091	2.590
	Listing	0.012	0.050	0.230	0.819	1.146
4	Constant	0.696	0.418	1.665	0.100	
	Total asset	0.043	0.077	0.554	0.581	2.504
	Profit after tax and zakat	-0.003	0.067	-0.048	0.962	3.103
	ROA	-0.007	0.126	-0.053	0.958	2.859
	ROE	-0.001	0.003	-0.190	0.850	2.590
	Listing	0.016	0.080	0.198	0.844	1.146
5	Constant	0.911	0.970	0.939	0.351	
	Total asset	0.091	0.179	0.509	0.612	2.504
	Profit after tax and zakat	-0.173	0.156	-1.107	0.272	3.103
	ROA	0.418	0.292	1.431	0.157	2.859
	ROE	0.004	0.007	.673	0.503	2.590
	Listing	0.221	0.187	1.186	0.240	1.146
6	Constant	0.994	0.731	1.359	0.178	
	Total asset	0.144	0.135	1.065	0.290	2.504
	Profit after tax and zakat	-0.236	0.118	-1.998	0.049	3.103
	ROA	0.178	0.220	0.808	0.422	2.859
	ROE	0.003	0.005	0.675	0.502	2.590
	Listing	0.115	0.141	0.815	0.418	1.146

Table 4.2 reports that financial performance as proxy by profit after tax and zakat, significant with Model 2 ($p < 0.05$, $p < 0.10$ and $p < 0.05$, respectively), whereas size of bank, and listing was minor. In contrast, the results ROA and ROE shows there are no significant association between elements in Model 2. It can be conclude that, the financial performance have influences the SRD regarding to element in Model 2 and Model 1 as measure by profit after tax and zakat. Table 4.2 also shows the empirical results of the regression analysis for Model 3 (SAC remunerations). In contrast with model 2 and 3, the figures show that both ROA and ROE proxies for financial performance have statistically significant with the level of SRD under element Model 3. It indicates that, the returns have influence on SRD element under Model 3 but not Model 2. In contrast, the results for total asset, profit after tax and zakat, and listing status shows no significant influences on the level of SRD according to the element of Model 3.

The results show, all the independent level has no significant influence on the SRD level under elements of Zakat Obligations in model 4. It can be said that, there is no factors associated with the zakat obligation as zakat obligation is one of the responsibilities of MIBs system in line with Shariah principles. Table 4.2 shows the empirical results of the regression analysis for Model 5 (Zakat amount). The results show, all the independent level did not has any significant influence on the SRD level under element Model 5. These results are consistent with the result in Table 4.2 (Model 4). It indicates that there is no variable interest significantly influences the level of SRD under element Model 5. A possible reason is that the disclosure of elements in Model 4 and Model 5 should not be influence by other factors, which means, it is obligation of MIBs in showing their responsibilities towards the nature of Islamic banking in parallel with Shariah laws and principles. Hence, all explanatory independent variables are not meaningfully associated with the level of Zakat obligation and Zakat amount disclosure of SRD items. In addition, Table 4.2 also provides the empirical results of the regression analysis for Profit Equalization Reserve (PER). The results show that only financial performance as proxy by profit after tax and zakat statistically significant with the hypothesis direction. This result is consistent with Model 1 and Model 2.

It can be concluded that, financial performance as measured by profit after tax influenced the SRD level according to element under Model 6 in the annual reports of MIBs. Thus, the result is supported by the alternate hypothesis 2 as proxy by profit after tax and zakat. However, in terms of return proxies, the results show both ROA and ROE does not influence the level of SRD in terms of PER element. In contrast, the result of remaining independent variable was found not to be statistically significant. Otherwise, the results of bank size, and listing status do not influence the level of SRD in terms of PER element. A possible reason for the significant results of profit after tax and zakat with PER is the amount of PER will increase if a bank gains higher profit in operation. It can be said that, the MIBs tend to disclose their PER information, which has been included as SRD items. The empirical results of the multivariate regression reveal that different results between selected firm-characteristics and six elements, which have been included in SRD items. The findings of current study can be divided into two groups which are some findings are supported by the findings of some prior studies, and some findings also contrary to the findings of other previous studies, as discussed below. Total assets have significant influence on the level of SRD items according to elements Model 1. The results are consistent with studies conducted by Souissi & Khlif, 2012; Bader Al-Shammari, 2012; Elie Menassa, 2010; Othman et al., 2009; Mohammed, 2008; Ousama & Fatima, 2006; Romlah et al., 2003; Ho and Mathews, 2002; and Mohamed Zain, 1999 indicate that total assets provide strong relationship with the disclosure level. Since the results reported that total assets are significant with one of SRD elements, therefore, the hypothesis 1 is failed to be rejected.

There are mixed results reported in the relationship between financial performance (measured by profit after tax and zakat, ROA and ROE) and SRD level. The results revealed that profit after tax and zakat shows positive and significant association between Model 1, Model 2, and Model 6 in SRD items. The results are consistent with studies conducted by Othman et al., 2009; Khalid, 2006; and Haniffa & Cooke, 2002. However, current results are not consistent with Abdul Rouf and Abdullah (2011). They found that there is significant but not positive result in respect of profitability of firm as proxy by on percentage of net profit in the extent of voluntary disclosure. It can be concluded that, the higher profitability motivates management to disclose more information because it will increase investor's confidence and at the same time enhances the management compensation too. Furthermore, the results for ROA presents that only two models are associated with SRD items comprises of Model 1 and Model 3. It can be said that the results are significant and have positive relationship with SRD level even though not all model shows significant results. Saleh and Zeitun (2006) suggested that ROA have a positive sign in banks performance. From the results above, only Model 3 reported positive and significant relationship between ROE and SRD items. A possible interpretation for this result is higher profitable bank disclose more information pertaining to SAC remuneration to display their action and signal their success to all widely user of banks. The results are consistent with studies conducted by Bader Al-Shammari, 2012; Elie Menassa, 2010; and Al-Shayeb, 2003. In contrast, the results are not supported by prior studies such as Abdul Hamid, 2004; Camfferman & Cooke, 2002; and Wallaca et al., 1994. Therefore, the hypothesis 2 is failed to be rejected since three proxies in financial performance show positive and significant association between certain elements in SRD compliance. However, the result shows that there is no relationship at all between listing status and level of SRD compliance. All the tables shows insignificant results, therefore hypothesis 3 is rejected. These results are consistent with Elie Menassa (2010). In short, the study could not find supportive evidence on the association between the dispersion of listing and SRD level. The result is not consistent with studies conducted by Adhikari et al., 2005; Sussane Arvidsson, 2003; Schipper, 1991; and Dalimunthe, 1993.

5. CONCLUSION

This study examined the firm-characteristics associated in order to investigate the level of the SRD during five years annual reports. To achieve the objective, this study analysed all elements disclose through disclosure index construction by using an unweighted disclosure index, compiled from 11 elements in SRD items, was computed for each bank. The study found that banks, on average, report 0.96 percent of SRD elements. The high disclosure level most likely relates to the fact that such information should be disclosed as required by CBM in ensuring the MIBs are parallel with Shariah principles. Thus, all Malaysian Islamic banks have proved to be complying with the guidelines set by the Central Bank of Malaysia. Based on the empirical research findings, this study has achieved the main objectives and all the specific objectives. Overall, the results of bank's size as proxy by total assets, and financial performance as proxy by profit after tax and zakat, ROA and ROE, statistically verified on giving positive effect on Shariah responsibility disclosure compliance practice. In brief, these factors directly contribute to the factors influence the Shariah responsibility disclosure level in Malaysian Islamic banks. On the other hand, the results for listing status had shown that level of SRD plays unimportant roles in listing status. Therefore, either listed or non-listed listing status would not influence the Shariah responsibility disclosure compliant among Malaysia Islamic bank. Additionally, this study also examined the descriptive statistics for all variables. Based on the results of the analysis, financial performance as measured by

ROE can be ranked as (1), size of bank as measured by total assets can be ranked as (2), then financial performance as measure by profit after tax and zakat can be ranked as (3), whereas listing status in the ranking no (4), and the bottom is ROA as proxy for financial performance. The finding of this study would provide better understanding on the factor influence the factors influence the level of compliance of Shariah Responsibility Disclosure among Malaysian Islamic Banking. This study might influence banks' user especially Muslim customers and investors in making better decisions and forming improved strategy in their investments portfolio in Islamic Banks.

The results of the study indicated all 16 Malaysian Islamic Banks are complying with Shariah elements as outlined by Central Bank of Malaysia guidelines. In addition, this study can be perform as an indicator or benchmark for other Islamic institutions who run their business in Malaysia as to follow the guidelines provided by Central Bank of Malaysia. These findings might initiate all Islamic institutions that Shariah responsibility disclosure guidelines standards is highly regarded and should be widely adopted by other Islamic institutions. Furthermore, Central Bank of Malaysia could use the results from this study to reform terms and condition for all Islamic banks in complied the Shariah disclosure. By changing voluntary disclose into mandatory disclose, 100 percent result might be achieved in complying the eleven elements of SRD. It is recommended to the future research to examine into some reporting pattern for SRD compliance should be undertaken to explore the Shariah responsibility disclosure compliance of Malaysian Islamic banks in other communication media such as corporate website and stand-alone SAC reports.

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