THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE TAX ON THE FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS

BY

MASHIYAT TASNIA

A thesis submitted in fulfilment of the requirement for the degree of Doctor of Philosophy in Islamic Banking and Finance

IIUM Institute of Islamic Banking and Finance
International Islamic University Malaysia

APRIL 2022

ABSTRACT

The purpose of this study is to examine the impact of corporate social responsibility (CSR) disclosure on the financial performance of Islamic and conventional banks, where corporate tax payment is considered as a moderator between CSR-financial performance nexus. Prior studies on corporate social disclosure imply lower agency costs and higher corporate value. With a wider and diverse stakeholder interest, a more resilient financial performance with social responsibility is anticipated. CSR tax incentive structure is expected to enhance further the legitimacy of the disclosure within the socially constructed norms and values of the banking relationship. Hence, this study explores the CSR phenomenon and behaviour within the context of agency, stakeholder and legitimacy theories amongst the financial performance of both conventional and Islamic banks. This study adopts a quantitative archival study with panel regression models to test research hypotheses. It is conducted based on available data of a global sample of both conventional and Islamic banks comprising of 65 full-fledged Islamic banks from 22 countries and 233 conventional banks from 49 countries for the period from 2013 to 2018. The findings of this study show that CSR disclosures significantly impacted both Islamic and conventional banks' financial performance. In addition, the corporate tax payment significantly moderates the relationship between CSR and Islamic and conventional banks performance. This study is limited to quantitative analysis and focused only banking industry, while qualitative studies and other institution are recommended for future research. Besides, this study considered only corporate tax payment, where zakat also required to explore. The findings of the study support the agency theory, stakeholder theory and legitimacy theory. Moreover, the findings of this study have several policy implications, and it is significant for the investors, regulators, policymakers and users of the bank's annual reports. The findings also benefit regulators in implementing the policy on CSR disclosures and related taxation incentives, which may enhance top management's accountability and maintain the sustainability of banks in the long run.

خلاصة البحث

الهدف من هذه الدراسة هو استكشاف تأثير الإفصاح عن "المسؤولية الاجتماعية للشركات" (CSR) على الأداء المالي للمصارف الإسلامية والتقليدية، حيث أن دفع ضرائب الشركات يعتبر كوسيط بين أداء المسؤولية الاجتماعية للشركات والأداء المالي. أن الدراسات السابقة حول الإفصاح الاجتماعي للشركات تدل على انخفاض تكاليف الوكالة وكذلك ارتفاع قيمة الشركة. يتوقع أكثر مرونة في أداء مالي مع مسؤولية اجتماعية في حالة وجود مصلحة أوسع ومتنوعة لأصحاب المصالح. وكذلك يتوقع من هيكل الحوافز الضريبية للمسؤولية الاجتماعية للشركات أن يعزز شرعية الإفصاح في إطار المعايير والقيم الاجتماعية للعلاقة المصرفية. ومن ثم، تستكشف هذه الدراسة ظاهرة المسؤولية الاجتماعية للشركات والسلوك في سياق نظريات الوكالة وأصحاب المصالح والشرعية بين الأداء المالي لكل من المصارف التقليدية والإسلامية. وتعتمد هذه الدراسة على دراسة أرشيفية كمية باستخدام نماذج لوحة الانحدار لاختبار فرضيات البحث. يتم إجراؤه بناءً على البيانات المتاحة لعينة عالمية من المصارف التقليدية والإسلامية التي تتكون من 65 مصرفاً إسلامياً مكتملاً من 22 دولة و233 مصرفاً تقليدياً من 49 دولة للفترة من 2013 إلى 2018. أن النتائج لهذه الدراسة تبين بأن إفصاحات المسؤولية الاجتماعية للشركات أثرت بشكل كبير على الأداء المالي لكل من البنوك الإسلامية والتقليدية. وبالإضافة إلى ذلك، فإن دفع ضريبة الشركات يؤدي إلى اعتدال العلاقة بين المسؤولية الاجتماعية للشركات وأداء المصارف الإسلامية والتقليدية بشكل كبير. أن نطاق هذه الدراسة تركز على التحليل الكمي وتركز فقط على الصناعة المصرفية، في حين يوصى بالدراسات النوعية والمؤسسات الأخرى للبحث في المستقبل. إضافة إلى ذلك، اهتمت هذه الدراسة بدفع ضريبة الشركات فقط، حيث يلزم أيضًا استكشاف الزكاة. أن النتائج لهذه الدراسة تدعم نظرية الوكالة ونظرية أصحاب المصالح ونظرية الشرعية. علاوة على ذلك، فإن نتائج هذه الدراسة لها العديد من الآثار السياسية، وهي مهمة للمستثمرين والهيئات التنظيمية وصانعي السياسات ومستخدمي التقارير السنوية للمصارف. وتفيد النتائج أيضًا الجهات التنظيمية في تنفيذ سياسة الإفصاح عن المسؤولية الاجتماعية للشركات والحوافز الضريبية ذات الصلة، والتي قد تعزز مسألة الإدارة العليا وتحافظ على استدامة المصارف على المدى الطويل.

APPROVAL PAGE

The thesis of Mashiyat Tasnia has been approved by the following:

____
Syed Musa Bin Syed Jaafar Alhabshi
Supervisor

____
Romzie Rosman
Co-supervisor

____
Asst. Prof. Dr. Anwar Hasan Abdullah Othman
Internal Examiner

____
Name
Internal Examiner

____
Prof. Dr. Zulkarnain Muhammad Sori

External Examiner

____
Name
Chairman

DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mashiyat Tasnia

Signature:……………………………… Date: 26 April 2022

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

DECLARATION OF COPYRIGHT AND AFFIRMATION OF FAIR USE OF UNPUBLISHED RESEARCH

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE TAX ON THE FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS

I declare that the copyright holders of this thesis are jointly owned by the student and IIUM.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below:

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.

2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.

3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Mashiyat Tasnia

……………………………… ……26 April 2022……

Signature Date

This thesis is dedicated to my respected mother Monira Sultana and my respected father Md. Zakaria Alam Kabir and my beloved husband Mohammad Hassan Shakil for laying the foundation of what I turned out to be in life.

ACKNOWLEDGEMENTS

All glory is due to Allah, the Almighty, whose Grace and Mercies have been with me throughout the duration of my programme. Although, it has been tasking, His Mercies and Blessings on me ease the herculean task of completing this thesis.

I am most indebted to by respected supervisor, Associate Professor Dr Syed Musa Bin Syed Jaafar Alhabshi, who’s enduring, disposition, kindness, promptitude, thoroughness and friendship have facilitated the successful completion of my work. I put on record and appreciate his detailed comments, useful suggestions and inspiring queries which have considerably improved this thesis. His brilliant grasp of the aim and content of this work led to his insightful comments, suggestions and queries which helped me a great deal. Despite his commitments, he took time to listen and attend to me whenever requested. The moral support he extended to me is in no doubt a boost that helped in building and writing the draft of this research work. I am also grateful to my respected co-supervisor, Associate Professor Dr Romzie Rosman, whose support and cooperation contributed to the outcome of this work. I really appreciate his friendly support and prompt response whenever I need the most.

My deep gratitude goes to my life support, my beloved parents for their prayers, immense support, understanding and endurance while away. I am thankful to my elder brother Md. Minhaj Alam and my sister-in-law Nowshir Fatima for their valuable advice throughout my PhD journey. A special thanks to my mother-in-law Shahanaj Parvin and father-in-law Mohammad Monir Mahbub for their patience, support and understanding of my hard work wholeheartedly.

Once again, we glorify Allah for His endless mercy on us one of which is enabling us to successfully round off the efforts of writing this thesis. Alhamdulillah.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BSR	Business for Social Responsibility
CED	Committee for Economic Development
CERES	Coalition for Environmentally Responsible Economies
CSR	Corporate social responsibility
DIV	Dividend Yield
ESG	Environment Social Disclosure
ETR	Effective tax rate
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
IFC	International Finance Corporation
IIRC	International Integrated Reporting Council Committee
INF	Inflation Rate
LEV	Banks Leverage
ROA	Return on assets
ROE	Return on equity
SAMA	Saudi Arabia Monetary Authority
SDGs	Sustainable Development Goals
TBL	Triple Bottom Line
TQ	Tobin’s Q
UN	United Nation
US	United States
USD	United States Dollar

CHAPTER ONE

INTRODUCTION

This chapter begins with the background of the designated topic. Following the background, it includes the study's motivation, the study's purpose, identifying the problem, research objectives, research questions and significance of the research.

1.1 BACKGROUND AND MOTIVATION OF THE STUDY

The growing concern of environmental, social, and economic crises in the world leads the banking sector to adopt corporate social responsibility (CSR). However, adopting CSR in the banking sector is not enough for a good performance. It requires a continuous monitor which CSR disclosure levels are impacting the stakeholders positively or negatively. According to Thomson and Jain (2009) CSR disclosure considers as environment, social, and governance (ESG) disclosure. Post global financial crisis, organization emphasis on ESG activities extensively to recapture their lost reputation by demonstrating socially responsible. The significance of ESG disclosure among the companies are important in terms of their financial performance and reputation. Nizam, Ng, Dewandaru, Nagayev, and Nkoba (2019) explained that social and environmental sustainability is one of the major trends in financial markets in the past decade. Social activities by a company helps to build positive impression, creates brand image (Godfrey, Merrill, & Hansen, 2009), defend against negative market reaction and protect the stock of the companies (Godfrey et al., 2009; Lee, 2016). CSR disclosure is the proof of the social activities that have been done for the social development internally and externally of the organization. The main goal of the CSR disclosure is to show the internal and external stakeholders about the organization's social concerns, create a good reputation and attract the investors in future.

However, based on the prior research, CSR disclosure does not receive appreciation every time due to the types of CSR activities. For example, a negative correlation was detected between environmental disclosure and a bank's financial performance (Saudagaran, Buallay, Fadel, & Alajami, 2020). The author interpreted that shareholders consider environmental activities as an extravagance cost and they prefer rather utilize internal resource development. On the other hand, due to CSR disclosure, banking performance leads to an upward phase and can sustain potential shareholders and customers. The inconclusive results regarding CSR disclosure and bank financial performance compelled to examine more deeply both conventional and Islamic banking sectors globally. Besides, taxation is the cost for an organization utilized by the Government for social development as well. Through prior reports and studies, it was mentioned that those organizations that disclose CSR, are eligible for tax exemption. This ultimately can be a positive situation for an organization as they receive a good impression from the shareholders over CSR disclosure, less tax burden, and an increase in financial performance. In that case, CSR disclosure, tax payment, and banks' financial performance share an association that will be explored later in this study. Particularly, how banking performance responds to the environment, social and governance disclosure will explore. In addition, whether tax payment moderates the relation between CSR disclosure and bank's financial performance is examine in this study later.

1.1.1 Recognition of Corporate Social Responsibility

Consequently, new regulations and the growing popularity of CSR compelled the banking sector to disclose CSR in their annual report. Besides, the adoption of CSR strategies is undeniable to compete for sustainable development goals (SDGs). CSR has emerged as an essential priority for industries, banks and other financial institution due to stakeholders' interest in responsible actions. During the global financial crisis, the banking sector faces substantial reputational and financial losses. The crisis occurs because of corporate deregulation, the scam of real estate loan, accounting fraud, lack of CSR strategies, and top management negligence, for example, Lehman Brothers, Merrill Lynch, Tyco and Vivendi (Cornett, McNutt, and Tehranian, 2009). Following the aftermath of the global financial crisis, some banking sectors managed to survive and refocus on, where others collapsed (Earhart, Van Ermen, Silver, and De Marcillac, 2009).

Only those banks are survived, which moved their focus on sustainability through environmental, social and governance practices (Earhart et al., 2009). Banking sectors require to strategise sustainable action accordingly due to their significant impact on the economy. Moreover, Haji and Ghazali (2012) highlighted that the global crisis enforced firms to involve in more CSR activities to recover their reputation and confidence. CSR is the combination of social equality, healthy ecosystems, and good organisational governance, which can be performed either under mandatory conditions or voluntary choice (Adhikari, 2014). Governments of various countries have taken the initiative to disclose CSR mandatorily in the annual reports. For instance, Malaysia, Thailand, Singapore, India, and Russia are already assigned for mandatory CSR disclosure on both companies and banks' annual reports (Fogelberg, Bartels, Lemmet, Malan, and Van der Lugt, 2013). Moreover, countries in the European Union have several non-financial disclosure rules and continuously improving how to make CSR disclosure more transparent (European Parliament, 2018). In India, CSR law mandated that a company earned more than USD 700,675, or the annual turnover of USD 14 million and a net worth of more than USD 70 million must spend two per cent of that profit for CSR activities. Companies who failed to spend the CSR fund in a timely manner, require transferring the funds proposed under Schedule VII of the Act (such as the Prime Minister Relief Fund) within six months of the end of the financial year. Moreover, companies require an explanation for not disclosing CSR in their annual report (India Briefing, 2019; Singh & Verma, 2014). In China, both Shanghai and Shenzhen Stock exchanges have issued several CSR disclosure guidelines for voluntary and statutory basis (Shahab & Ye, 2018). Global CSR disclosure is now prevalent, either voluntary or mandatory, with increasing prominence in the banking sector CSR disclosures.

1.1.2 CSR in Conventional and Islamic Banks

Chatterjee and Lefcovitch (2009) claimed that due to the absence of morality and responsibility towards the customers and society, the ethical considerations lead to the global financial crisis. Embracing CSR in conventional banks is now an affirmative action and requirement as one of the recovery steps, and it becomes a reputational indicator for the banks. Therefore, banks involve in CSR disclosure by establishing recent trends and strategies for customer value and satisfaction (Platonova, Asutay, Dixon, and Mohammad, 2018). CSR is the combination of environment, social and governance (ESG) approach. CSR funds disburse through the bank as per the decision of the authority and requirement of the society. For instance, Dhaka Tribune (2020) reported that banks in Bangladesh spend USD 147 million for disaster management, USD 143 million for education, USD 59 million for the health-care sector and USD 27 million for the cultural sector. The CSR spending has increased from the previous year, and the banks are entitled to get tax rebates in terms of CSR spending (Bangladesh Bank, 2015). Similarly, HSBC Bank discloses its environment, social and governance approach more transparently in its annual report. The report shows the concern on ESG approach such as investing in low carbon project, positive gender diversity and inclusion, managing financial crime risk and admits for proper cybersecurity management (HSBC, 2019).

In recent years, Islamic banking in lieu of conventional banks CSR disclosure, demonstrated the embedded potentiality of CSR practices by highlighting the moral concern in banking based on Islam’s ontological and epistemological basis (Platonova et al., 2018). According to State of the Global Islamic Economy Report (2018), global Islamic finance industry acquire a total size of assets worth USD 2.44 trillion in 2017 and its assets are estimated to reach USD 3.81 trillion by 2023. Furthermore, IFSB highlighted that, the total assets of the Islamic banking industry in 21 countries increased by 1.7% from USD 1,625 billion in 2017 Q2 to USD 1,652 billion in 2018 Q2. Financing by Islamic banks in 19 countries which increased by 1.9% reached USD 1,013 billion in 2018 Q2 from USD 994 billion in 2017 Q2. The number of full-fledged Islamic banks and Islamic windows of conventional banks in 21 countries stood at 189 and 82 in 2018 Q2 as compared to 184 and 84 in 2017 Q2 respectively (IFSB, 2020). Islamic banks incorporated CSR due to similar universal values and consistent with the principles of Islam. Muslims believe in justice and social welfare, and thus, CSR becomes an integral part of Islamic banking. The four principles of the Islamic world view or belief system are elaborated as Tawheed (unity), Al’adl wall Ihsan (equilibrium), Ikhtiyaar (free will) and Fard (social responsibility) and these are within proper order and to be coherent (Naqvi, 1997; Cone, 2003; Al-Sabban, Al-Sabban, and Rahatullah, 2014). Among four principles, Fard (social responsibility) is the one that is related to CSR. Islamic banking in several countries implemented the CSR concept by initiating social welfare project. For instance, the most prominent Islamic bank of Jordan, named Jordan Islamic Bank, took an initial step towards socially responsible and sustainable growth by signing an agreement of instalment of a solar power station that will produce renewable energy and provide power supply to its branches. It is an example of the Jordan Islamic Bank's commitment to social responsibility and sustainability (Jordan Islamic Bank, 2018). Bank Islam Malaysia has introduced a mobile application called "SnapNPay" to contribute "Sadaqa" (voluntary charity), a crowdfunding project which will provide health, education, and environment support to the community. The fund will be accumulated through zakat and charity (Bank Islam, 2017). According to Islamic Finance Development Report (2018), CSR policy and employee welfare stated the most practising items, where 85 per cent of the funds disbursed.

The lack of clarity of CSR implementation policies and its justifications and transparency has attracted criticisms on its proper and effective strategies (Dusuki, 2008; Adnan Khurshid, Al-Aali, Ali Soliman, and Mohamad Amin, 2014). However, Williams and Zinkin (2010) highlighted that religion plays a substantial role in building moral values and behaviour, which can impact various business areas. Kamla, Gallhofer, and Haslam (2006) argued that although Islamic banking claimed to be principled and socially responsible, eventually it is not the same in practice, and still there is an anomaly between philosophy and authenticity of CSR practices.

1.1.3 CSR Disclosure and Corporate Tax Payments

According to new Global Reporting Initiative (GRI) standard for public reporting on tax “GRI 207”, where the organizations could disclose their tax practices as part of their sustainability or CSR reporting (GRI, 2019). CSR includes activities related to the social, environmental, legal and ethical duties affecting social welfare, and tax can be considered as a social component. Taxes are a major appliance through which organizations contribute to the economy of a country. Taxes are considered one of the principal sources of government revenue, which is utilized for societal development. Taxation fulfilled the initial term of CSR and contributed socially and economically. In public funding for social good, tax exemption or deduction may be considered for banks CSR practices. Besides, the current CSR discussion focusing on companies responsible tax and predicted it as a future opportunity for socially responsible activities (Thomson Reuters, 2018). One of the most significant advantages of CSR is that the Government in diverse countries offering tax incentives on CSR activities. For example, in Malaysia, the organization entitled tax deduction in terms of their social activities, such as developing intellectual property, charity and communities' contribution, the solar leasing project, and digital social responsibilities (DSR) related activities (PWC, 2019). In Bangladesh, the banking sector would receive a ten per cent tax exemption if they spent on CSR in Government identified areas (Malik, Al Mamun, and Amin, 2019). According to Scholtens (2011), research revealed that those participating in sustainable projects entitled tax exemption. Moreover, tax incentives can reduce the cost of capital, enhance productivity and attract investors to invest more of their funds.

1.1.4 CSR Disclosure, Corporate Tax Payments and Banking Performance

Post financial crisis, CSR disclosure is considered one of the saviours to recover the lost trust and reputation from the shareholders and the customers. Besides, issues of corporate statutory liabilities related to corporate tax negligence lead to corporate financial failure and a rapid drop in stock price such as UBS, Google. Furthermore, previous studies disclosed that shareholders might penalise the corporation on their negligence behaviour of tax planning (Tye and Abdul Wahab, 2018), resulting in corporate failure and reputational loss. Consequently, the study of Elbra and Mikler (2017) explained that a corporation's image is impaired if any unfairness with taxation is publicly exposed. However, CSR represents environmental, social and governance factors where conventional and Islamic banks arrange their disclosure strategy. Due to social obligations to the community, Islamic banking has some exceptional criteria for disclosing CSR. Islamic banks are obliged to pay Zakat (obligatory dues to the indigent) on behalf of their Muslim shareholders and depositors. For example, Saudi Arabia has an integrated department on paying income tax and Zakat where all the business entities must register with the department (General Authority of Zakat & Tax, 2020). Besides, how total assets of a bank, banks leverage and dividend yield associate with the banking performance, need to examine. Since, among various types of factors related to financial and legal, banks profitability get affected by the bank's size (Demirgüç-Kunt and Huizinga, 2000). Based on Kraus and Litzenberger (1973) trade-off theory, leverage ratio is the main component of firms' capital structure and used to measure firms' overall financial performance. Tax benefits can grow from a bank's leverage, for example, interest expense can consider being tax-deductible, where banks overall debt expense may reconsider the contribution decision (Kang, Lee, and Huh, 2010). Besides, when dividend yield is lower, the expected return tends to be lower which, in turn, could result in higher PE ratio (Fama and French, 1988; Haffter et al., 1996). Moreover, macroeconomic factors such as Gross domestic product (GDP) growth and inflation rate need to consider for further examination. Because, GDP measure a business cycle variability evaluates the progress of economic activity in a country. Besides, prior research also have found an association with inflation rate and bank performance where Demirguc-Kunt et al. (2003) found that banks have broader margins and higher returns under inflationary environments.

Hence, there is a need to explore how Islamic banks adopt CSR disclosures within a corporate tax regime compared with conventional banking and their impact on banking financial performance.

The banking sector is an integral part of the economy, and it is essential to monitor and evaluate its performance constantly. Since banks are claiming to be environmentally and socially responsible, such initiatives supposed to lead to better performance. Moreover, CSR is performing most of the region voluntarily, and tax is the Government's legal obligation. This study would be interesting to learn how CSR disclosure impacts the banks' performance and how they react when corporate tax payments consider as the moderator between CSR disclosure and banking performance.

1.2 PURPOSE OF THE STUDY

The tenacity of this research is to analyse the impact of CSR disclosure on the bank's performance, where corporate tax payment plays as a moderator. CSR disclosure would be different in Islamic banks because Islamic law supports only Halal investment and prohibits non-halal products and services, for instance, alcohol, gambling, and casinos, due to their harmful effect on society. Meanwhile, a conventional bank's CSR can sponsor activities such as agriculture business, where the business could base on a pork farm, which is not permissible in Islamic banking. This study expects to have a significant impact of CSR disclosure on the performance of Islamic and conventional banks. For Islamic banks, this study expects better financial performance because of the ethical nature of Islamic banking. When a bank performs better in CSR, it is expected that they have lesser risk in their financial performance. Besides, shareholders would have a positive impression on those banks that are socially responsible. Moreover, when a bank retain transparency in their corporate tax payments, it creates a positive image among the shareholder and consumers, which positively impacts their overall performance.

1.3 PROBLEM STATEMENT

CSR concept is recognised more diligently after the global financial crisis to recover the lost brand image and trust from the shareholders and customers (Haji and Ghazali, 2012). CSR is quite familiar among the corporate world, and Government in various countries is assigned a mandatory CSR disclosure by banks' annual report (Waagstein, 2011; Singh and Verma, 2014; Chen, Hung, and Wang, 2018). Besides, according to some countries' policies, those banks disclosed CSR spending and they entitled to get income tax exemption. Consequently, according to the GRI standard, it is stated that a company can show taxation as a sustainable act in its sustainability report (GRI, 2019). Since CSR is considered a positive tool for a bank's performance, prior studies have discussed its disadvantages. However, Zhou, Sun, Luo, and Liao (2021) discussed that CSR would make a negative impact on bank financial performance in the short term. Nevertheless, this relationship turns out to be positive in the long run. CSR disclosure, corporate tax payments in the banking sector required to highlight for further analysis.

Firstly, Jeucken and Bouma (1999) stated that the banking sector still needs to identify the impact of CSR disclosure. Jeucken (2004) concerned that the banking and financial services sector is not responding gradually on sustainability where other sectors already adopted it. Likewise, Earhart et al. (2009) found that the financial sector is not yet interested in dealing with environmental and social impacts. Banking sectors intended to focus on CSR disclosure post global financial crisis where investor become more aware of their investment. Before investing or deposit to a financial institution, it is important to analyse the financial and market performance. An investors decision depended on what type of information they are receiving from the market (Xu and Liu, 2018). Disclosing CSR initiatives and their action in the annual report creates a good impression among the shareholders and public and shows the accountability of a bank how it disbursed CSR fund. Thus, it attracts the investors and customer to engage more with the banks and ultimately positively impacts the financial performance of a bank. The problem, however, is lacking in disclosure of CSR activities, especially in the Islamic banking sector. According to the Islamic finance development report, they accumulated five Islamic finance development indicators (quantitative development, knowledge, governance, corporate social responsibility, and awareness) where the growth of quantitative improve and CSR disclosure is not satisfactory. CSR indicator has 11 activities including Zakat, Qard, Waqf and employee's welfare, which is needed to disclose by the Islamic financial institution but still the disclosure is not satisfactory. Despite the growth of CSR funds disbursement, CSR disclosure growth shows a downfall in their score of 3.09 in 2017 and 2.44 in 2018. Even though Saudi Arabia is the first and maximum CSR fund receiver, they scored very low in disclosures. In 2018, the Saudi Arabia Monetary Authority (SAMA) penalised 16 financial institutions in Saudi Arabia for not meeting the AAOIFI's disclosure policy. The report concluded that Islamic finance industry needs to explore more cautiously in the area of CSR and industries ecosystem to see if they are moving to the right direction (Islamic Finance Development Report, 2018). Besides, Nugraheni and Khasanah (2019) stated that Islamic banks in Indonesia need a broad range of information, especially CSR. The CSR disclosure regulation following AAOIFI standard scored very low, and the author raised attention towards Government in Indonesia to impose a specific regulation on CSR disclosure. Furthermore, due to data unavailability of CSR, some author drop the Islamic bank from their research sample, which portrayed that Islamic banks still not upgraded their CSR disclosure (Buallay, Fadel, Al-Ajmi, & Saudagaran, 2020).

Secondly, Friedman (2007) discussed that the primary goal of a firm is to maximize wealth, where non-financial disclosure become an obstacle of generating profit. The author addressed CSR as an inapplicable utilization of company’s funds, which would cause extravagance spending for the social interest. Mackey, Mackey, and Barney (2007) argued that shareholders anticipate a firm to develop their financial disclosure more than social actions, and such social responsibilities supposed to done by the charities than the firm. Furthermore, Barnea and Rubin (2010) specifically highlighted that encumbrance of employee’s job security, commitment for fixed expenditures towards employees, health coverage and well-structured pension scheme turned a source of risk. Similarly, study of Bouslah, Kryzanowski, and M’Zali (2013) found a positive relationship between social, governance and firm risk. They underlined that over prioritising on social and governance by the firm might increase the risk. Besides, prior studies used different proxies of risk to examine CSR's consequences, and they found that lower CSR disclosure reduces the firm's risk (Luo and Bhattacharya, 2006; Jizi, Salama, Dixon, and Stratling, 2014; Nguyen and Nguyen, 2015). However, over-investment on CSR related activities such as environmental and social practices might not always welcome by the shareholders as the investment in CSR incurs an additional expenditure that shareholders have to endure directly or indirectly (Shakil, Mahmood, Tasnia, and Munim, 2019). In those cases, shareholders may penalise the bank or prefer to withdraw their investment, which may lead the bank's financial failure with a rapid drop of the stock price.

Thirdly, the typical characteristics of CSR and taxation are utilising for the sake of society. How the banks' performance are responding while considering corporate tax payment as a moderator between CSR and financial performance of banks is yet to explore. Because, several countries are offering tax incentives or tax exemption while the banks are disclosing CSR report, for instance, banks in Bangladesh (Halabi and Samy, 2009; Bangladesh Bank, 2015; Uddin, Siddiqui, and Islam, 2018), banks in Malaysia (Bursa Malaysia, 2018; Timbuong, 2019). In terms of tax incentives, it plays an important role in attracting new investment which funded to substantial increases in growth and development (United Nations, 2018). In short, through tax incentives, able to utilize CSR for further social development, increase the productivity due to less cost generation and boost the banking performance. CSR and corporate tax payments are related only to their contribution to the broader community (Williams, 2007; Avi-Yonah, 2008). On the other hand, Davis, Guenther, Krull, and Williams (2016) argued that corporate tax payments tend to drop a firm's profitability, which reduces infrastructure, job creation, and employee income level and payment to suppliers. Paying corporate tax and spending CSR at the same time might be a burden for banks. Griffith, Hines Jr, and Sørensen (2010) showed in their research how corporate taxes impact negatively on investment in the market. Under this circumstance, it is needed to