Modified integrated Islamic CSRD index and financial performance of Malaysian Islamic banks

Stakeholders' perception

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Abstract

Purpose – The purpose of this paper is to examine the relationship between the modified integrated Islamic CSRD index (MIICSRDI) and financial performance of Malaysian Islamic banks as perceived by the stakeholders.

Design/methodology/approach – This paper used survey questionnaire with a purposive sample of 343 stakeholders of Malaysian Islamic banks. A theoretical framework was developed and tested by using partial least square analysis.

Findings – The findings reveal that there is a significant positive relationship between the MIICSRDI and financial performance as perceived by the stakeholders.

Research limitations/implications – There is a lack of empirical research proposing an Islamic CSRD framework that is suitable to be applied within the context of the Malaysian environment. Hence, this paper shows that MIICSRDI in line with the stakeholder theory. Shariah principles and ‘urf principle (customary practice) can be used by Malaysian Islamic banks to increase their performance.

Practical implications – MIICSRDI can be used as one of the strategies to improve the financial performance of Islamic banks. In fact, it can be instilled in the value-based intermediation introduced by Bank Negara Malaysia for the rebranding of Islamic banks.

Originality/value – The relationship between perceived MIICSRDI and perceived financial performance is explained in light of the stakeholder theory, Shariah principles (unity, equilibrium, free will, responsibility and tazkiyah) and ‘urf principle (customary practice).

Keywords Perceived financial performance, Malaysian Islamic banks, Modified integrated Islamic CSRD index, Islamic CSRD framework, PLS SEM, Stakeholders’ perception

Paper type Research paper

1. Introduction

The downfall of the world’s largest banks such as Lehman Brothers and Bear Sterns because of the global financial crisis in 2008 has cast doubt on the financial system stability (Jan and Marimuthu, 2015; Smolo and Mirakhor, 2010). An increasing number of reports and