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Corporate social responsibility disclosure and dividend policy of Islamic banks: Evidence from GCC countries.

Abstract

Purpose: We investigate the relationship between Corporate Social Responsibility (CSR) disclosure and dividend policy of Islamic banks.

Design/methodology/approach: We analyze annual reports of 29 Islamic banks in the GCC region over the period 2010-2019. A CSR index was constructed to measure the extent of CSR disclosure.

Findings:
We find that CSR disclosure negatively impacts dividend payout ratio (DPR) but boosts the likelihood of paying dividends. The mission and vision (MV) reduce payouts, while zakah, charity, and community commitment (ZCB and CTC) enhance dividend propensity. Results are robust across measures

Originality/value: This research provides new insights into the interplay between CSR practices and dividend policies in Islamic banks, highlighting specific CSR dimensions that influence financial decisions.

Key words: CSR disclosure, dividend policy, Islamic banks, GCC

1. Introduction:

CSR activities adopt as a modern strategic choice to enhance the value of financial and non-financial firms by building a solid image and superior competitive advantage

between different stakeholders (Axjonow et al., 2018). Many efforts have concentrated on the relationship between CSR and firms' financial performance (Mallin et al., 2014). While earlier studies (Orlitzky et al., 2003) conclude inconsistent results, recent studies (Platonova et al., 2018) confirm the positive impact of several social and environmental activities on firms' financial performance. Researchers have recently shifted their interests from overall financial performance to particular aspects that CSR may affect, such as investigating the link between CSR and cost of capital (El Ghoul et al., 2011), information asymmetry (Dhaliwal et al., 2011), debt maturity (Benlemlih, 2017), and cost of debt financing (Xu et al., 2021). Some studies have investigated the nexus between CSR disclosure and dividend policy. For instance, Benlemlih (2019) documents that high CSR disclosure firms pay more dividends to their shareholders. Samet and Jarboui (2017) and Cheung et al. (2018) report that firms with substantial involvement in CSR activities have higher dividend payouts. In contrast, Sheikh et al. (2021b) and Saeed and Zamir (2021) find that high CSR performance decrease firms' DPR and increases the likelihood of paying the dividend.

However, there is a lack of empirical studies from financial institutions, particularly banks (Hassan and Aliyu, 2018). Existing banking studies shed light on relative efficiency, financial stability, and capital regulation (Belasri et al., 2020; Fu et al., 2015; Ramzan et al., 2021; Xu et al., 2015). Western banks experienced financial struggles during and post the Global Financial Crisis (GFC), which ultimately leads to international interest in Islamic banking due to their outperform and resilience over the GFC period (Beck et al., 2013). Shari'ah law governs GCC Islamic banks, emphasizing ethics, social justice, and harm prevention. These banks demonstrate their ideals through CSR transparency. Islamic banks must demonstrate their social responsibility, avoid damaging practices, and operate fairly. Customers seeking ethical financial solutions trust transparent CSR activities. Businesses that follow Shari'ah must guarantee that profit distribution does not conflict with risk-sharing and avoid excessive speculation (gharar). Islamic finance requires ethical profit distribution to shareholders. CSR activities that adhere to Islamic finance principles demonstrate how their dividend policy adheres to Shari'ah standards, ensuring long-term sustainability, thereby maintaining investor trust and benefiting the community.

Despite the regulatory frameworks and Shari'ah principles governing GCC Islamic banks, there is a lack of extensive research examining the impact of CSR disclosure on dividend policy decisions, particularly in light of the region's unique socio-economic and religious context.

The effects of CSR on dividend policy in Islamic banks are intricate. Yousef et al. (2021) demonstrate that Islamic banks employ dividend policies to mitigate agency concerns, similar to traditional banks. Nevertheless, Sbai's findings indicate that the status of being an Islamic bank does not substantially affect dividend distribution practices, challenging the assumption that Islamic banks automatically offer lower payouts due to their ethical principles (Sbai, 2024). This mismatch underscores the necessity for additional investigation into the impact of CSR initiatives on dividend policies within Islamic banking frameworks.

To further explore how CSR disclosure might shape the Islamic banks' dividend policy. For such a purpose, we investigate the nexus between CSR disclosure and dividend policy (DPR and propensity to pay dividends, DIVPYER). We consider 29 Islamic banks from the GCC region over the 2010-2019 period to examine this relationship. We analyze the content of annual reports and construct a comprehensive CSR index comprising six sub-dimensions, namely, mission and vision statement (MV), products and services (PS), commitment towards community (CTC), commitment towards debtors (CTD), commitment towards employees (CTE), zakah, charity and benevolent funding (ZCB). Following Benlemlih (2019), Davaadorj (2019, and Trinh et al., (2021), we utilize the ratio of cash dividends to total assets to measure the DPR. We use the dummy variable to measure the DIVPYER. We find a significant negative relationship between CSR disclosure and dividends payout ratio, implying that being socially responsible reduces the distributed cash dividends to the banks' shareholders. We find a significantly positive relationship between CSR disclosure and DIVPYER, suggesting that investing in social activities increases the banks' probability of paying dividends rather than hoarding cash. Moreover, our decomposing analysis shows a significant negative relationship between the mission and vision (MV) and banks' dividends payout ratio, indicating that disclosing specific information about banks' intention to involve in social activities decreases the banks' dividends payout ratio. Zakat, charity, and benevolent funding (ZCB), and commitment towards community (CTC) are

positively related to banks' DIVPYER, suggesting that support social initiatives increase the chance of dividends.

Our study provides new insights into the extant literature on Islamic banking and CSR disclosure. First, our focus is to investigate the nexus between CSR disclosure and dividend policy of the GCC Islamic banks, which has not been discussed in prior literature. Second, we investigate the link between the individual dimensions of CSR disclosure and two proxies of dividends policy- the DPR (the amount of paid dividends) and the DIVPYER (the likelihood to pay dividends) to explore how different bank activities shape their dividend policy. Third, prior literature on dividend policy deals with the dividends payout ratio and DIVPYER separately. Our study adopts both measures considering that firms that prefer to hoard cash rather than pay dividends usually choose to distribute no dividends. Fourth, we adopt a homogenous sample consisting of the GCC Islamic banks, which hold around 41.7 percent of the total Islamic finance assets worldwide (ICD-Refinitiv, 2020). Our results provide important implications for regulators, the management of the Islamic banks, and investors. Regulators should encourage banks to adopt social activities to increase their investment opportunities at a lower cost of financing (Ghoul et al., 2011), especially considering the relatively low level of CSR disclosure among Islamic banks (Harun et al., 2020). Our results can direct investors to develop their investment strategies and dividends expectations. Moreover, the management of Islamic banks can also use CSR activities as a monitoring device to alleviate agency problems.

The following section presents literature review and hypothesis development. Section 3 presents data and methodology. Section 4 presents results and discussion and Section 5 concludes.

2. Literature review and hypothesis development:

Dividend policy reflects a firm's strategy for distributing earnings to shareholders (Livoreka et al., 2014). In developing economies, such policies are often volatile due to fluctuating earnings (Adaoglu, 2000), whereas firms in developed economies maintain stable and periodic dividend payments (Skinner and Soltes, 2011). Modigliani and Miller (1958) argue that in an ideal market, dividend policy significantly influences a company's market value, but real-world imperfections lead to agency, stakeholder, and

signaling theories asserting that dividends impact attractiveness to investors (Booth and Zhou, 2017).

Agency theory, focusing on the separation of ownership and management, addresses conflicts between shareholders' and managers' priorities (Jensen and Meckling, 1976). From a CSR perspective, managers engage in activities for personal benefits such as networking and reputation enhancement, reducing available cash for dividends. This suggests that extensive CSR commitments could negatively influence dividend policy, a hypothesis as "cost of equity channel" by Cheung et al. (2018).

Stakeholder theory (Freeman, 2010) posits that managerial responsibility extends beyond maximizing shareholder wealth to include the interests of various stakeholders. Adopting CSR activities aligns business goals with broader stakeholder interests, benefiting shareholders and other partners (Gallo, 2004). Effective social initiatives can enhance shareholder confidence and attract investment (Nollet et al., 2016). Shen et al. (2020) suggest that engaging in social activities improves investment efficiency and stakeholder relations, thereby reducing costs. Cheung et al. (2018) emphasize that CSR commitment positively impacts firm earnings, potentially leading to increased cash dividends, the "earning channel" hypothesis.

Signaling theory suggests that higher dividend payments indicate confidence in a firm's prospects, signaling to investors about investment opportunities. From a CSR perspective, distributing dividends can signal sustainable and ethical wealth creation, aligning with the interests of stakeholders (Benlemlih, 2019). This strengthens the firm's reputation as higher-dividend payments reflect its commitment to responsible practices. Moreover, socially responsible firms may initially face liquidity and competitive challenges due to resource allocation towards CSR activities. However, high dividend payments signal to the market that CSR expenditures are sustainable and do not harm the firm's financial health, promoting efficient resource allocation (Benlemlih, 2019).

Several studies have explored the relationship between CSR disclosure and dividend policy of non-financial firms. Cheung et al. (2018) suggest that engaging in social activities can enhance earnings and increase DPRs. Sheikh et al. (2021a) analyze data from Pakistan (2010-2016) and find that CSR practices tend to increase the DIVPYER while reducing the DPR. Conversely, Samet and Jarboui (2017) report a positive

correlation between CSR disclosure and DPR in European firms. Similarly, Benlemlih (2019) demonstrates that socially responsible firms tend to distribute higher dividends compared to less socially responsible counterparts.

Current literature offers insights into the CSR-dividend link, although it uncovers inconsistencies that may stem from varying market situations, measuring techniques, and geographical contexts. Analyzing this relationship from an Islamic finance viewpoint offers a new dimension, wherein ethical, religious, and societal concerns substantially impact both CSR disclosures and dividend policy.

Islamic banks are distinguished by their adherence to ethical banking principles, which necessarily encompasses a focus on CSR. Zafar et al. (2022) emphasize that CSR disclosure can provide financial returns for Islamic banks, indicating a favorable relationship between CSR efforts and financial success. Mahmuda and Muktadir-Al-Mukit (2022) assert that the execution of CSR can improve profitability metrics, including Return on Assets (ROA) and Return on Equity (ROE). Moreover, Platonova et al. (2016) demonstrate that CSR disclosure enhances financial performance in the GCC Islamic banking sector. These studies indicate that a strong CSR strategy may not only improve the reputation of Islamic banks but also affect their dividend policies by potentially augmenting profits available for distribution.

The dividend policy of Islamic banks is regarded as more conservative than that of regular banks. Al-Kayed (2017) observes that Islamic banks in Saudi Arabia uphold steady dividend policies, a practice of adherence to Shari'ah compliance and the necessity to reconcile profit distribution with the reinvestment of earnings for future expansion. This cautious dividend strategy may be affected by the extent of CSR disclosure, since banks that actively participate in CSR may favor long-term sustainability over short-term profit distribution. Zafar & Sulaiman (2020) clarify that Islamic banks frequently encounter a conflict between adhering to Shari'ah standards and fulfilling stakeholder expectations for CSR, complicating their dividend policy.

Furthermore, the governance frameworks of Islamic banks, especially the function of the Shari'ah Supervisory Board (SSB), are essential in influencing both CSR disclosure and dividend policy. Farook et al. (2011) and Ali et al. (2024) indicate that robust governance systems might improve CSR practices, thereby impacting financial performance and, subsequently, dividend distribution. The SSB's supervision

guarantees that banks adhere to Islamic values, resulting in a more prudent strategy for dividend distributions, along with the ethical aspects of CSR. The relationship between CSR disclosure and dividend policy in Islamic banks is intricate and multifarious. Evidence indicates that improving CSR activities might benefit financial performance, potentially affecting dividend policy favorably. Given these insights, we anticipate a positive impact of CSR disclosure on dividend policy among GCC Islamic banks.

H1: The higher the overall and individual CSR disclosure indices of GCC Islamic banks, the higher their DPR.

H2: The higher the overall and individual CSR disclosure indices of GCC Islamic banks, the higher their propensity to pay dividend.

3. Data and methodology:

3.1 Data

We use unbalanced panel data from 29 Islamic banks operating in Kuwait, Saudi Arabia, Bahrain, Qatar, Oman, and the United Arab Emirates (GCC nations).During 2010-2019, the global banking sector, encompassing Islamic finance, witnessed increased focus on CSR matters. In the GCC region, there has been an increasing need from regulators, investors, and consumers for banks to exhibit their social contributions and ethical behavior, rendering this an opportune period for examining CSR practices in Islamic banks.. Moreover, the homogeneity of economic and financial conditions across these countries enhances the appropriateness of our analysis. The selection of the 29 banks was based on data availability for all variables. See Table 1 for the countries where the banks operate.

<Insert Table 1 about here>

We gather annual reports from bank websites or stock exchange websites to assess CSR disclosure. Excluding banks with incomplete annual reports, our financial sample comprises 225 bank-year observations. Financial variables, measured in thousands of US dollars, were sourced from Bankfocus and Eikon.

3.2 Method

Studies on dividend policy traditionally examine three key aspects: DPR (Faccio et al., 2001), DIVPYER (Denis and Osobov, 2008), and dividend stability (Aivazian et al., 2003). This study focuses on the impact of CSR disclosure on these dimensions. To measure the DPR, we adopt the ratio of cash dividends to total assets, avoiding potential earnings manipulation and market volatility issues associated with alternative measures. This approach provides a reliable indicator of how much cash is returned to shareholders relative to the bank's size and financial capacity. For the DIVPYER, we use a binary variable indicating whether a bank paid dividends each year, offering insights into the bank's annual dividend policy decisions based on its financial health and strategic objectives. Turning to talk about the CSR disclosure index. Several methods of measuring CSR disclosure have been used in prior literature. For instance, to measure CSR activities, La Rosa et al. (2018) use social responsibility scores. However, for the purpose of evaluating CSR effectiveness, Jin et al. (2017) create a new comprehensive social capital index. Some literature uses the MSCI KLD 400 social index to estimate the social performance (Tang et al., 2012), while others strand of literature measure CSR performance using the actual spending and corporate donations (Joseph et al., 2016). In our study, we do acknowledge the multidimensional nature of social activities that consider both internal and external stakeholders. As a result, we develop a comprehensive CSR disclosure index in accordance with recent research (Aribi and Arun, 2015; Haniffa and Hudaib, 2007; Mallin et al., 2014) and incorporate it as an independent variable in our regression model. The previous literature provides us with information on how to create and develop the main and sub-dimensions to evaluate the CSR disclosure from the perspective of the Islamic banks. In addition, because Islam as a religion imposes additional ethical and legal frameworks, additional action must be considered when measuring CSR disclosure in Islamic banking. Our CSR disclosure index specifically includes a variety of bank activities which are highly relevant to Islamic banks as they reflect the core principles of Shari’ah law, and emphasizes ethical conduct, social responsibility, fairness, and community welfare, all of which are integral to the operations and governance of Islamic financial institutions in the GCC. (mission and vision statement (MV), products and services (PS), commitment towards community (CTC), commitment towards debtors (CTD), commitment towards employees (CTE), zakah, charity and benevolent funding (ZCB)).

Except for the last dimension, which only applies to Islamic banks, these factors can be used to evaluate the CSR disclosure for the conventional banks.

To estimate the volume of CSR disclosure in the annual reports of the GCC' Islamic banks, we examine the content of the annual bank reports and use a dichotomous approach and unweighted index (Cooke, 1989; Haniffa and Hudaib, 2007). A single item from the checklist receives a score of one if any of the study's sample banks disclosed it; and it receives a score of zero otherwise. We employ the following equation created by (Haniffa and Hudaib, 2007) to calculate the CSR disclosure index:

$$CSR\ disclosure\ Index_{C,t} = \frac{\sum_{j=1}^{N} X_{i,j,t}}{N} \quad (1)$$

Where CSR disclosure index *c,t* represents the CSR disclosure index for dimension c at year t; $x_{i,j,t}$ represents the variables for dimension i, for bank *j*, at year *t.* Each dimension takes score 1 if the variable is disclosed and zero otherwise; N represents the total number of the variables that belong to each dimension.

Ensuring the reliability and validity of content analysis is crucial in research. Following Weber (1990), we implemented rigorous procedures. Initially, we conducted a pilot analysis on 10% of all bank-year observations, using 18 randomly selected reports. Three months later, we repeated the analysis on the same reports to ensure consistency in scoring. Adjustments were made for slight changes in disclosure dimensions, enhancing the accuracy and objectivity of our coding method. Moreover, our study utilizes two-stage least square (2SLS), three-stage least square (3SLS), and random-effect (RE) models to guarantee that the findings are resilient against endogeneity issues and reliable across various model parameters, thereby offering a thorough insight into the influence of CSR disclosure on dividend policy.

Control variables

To better isolate the impact of CSR disclosure on dividend policy, we control for variables commonly used in previous dividend policy studies (Abor and Bokpin, 2010; Benlemlih, 2019; Budagaga, 2020; Cao et al., 2017; Firth et al., 2016; Trinh et al., 2021). Bank-specific variables include Size, calculated as the natural logarithm of total assets; larger banks are expected to pay more cash dividends due to their maturity and lower risk. Leverage, the ratio of total equity to total assets, is expected to negatively

correlate with DPR as higher leverage indicates financial constraints. ROAA (Return on Assets), the ratio of net income after interest and tax to average total assets, is expected to positively correlate with DPR since more profitable banks can distribute more dividends. G_TA, the growth rate in total assets, is expected to negatively correlate with dividend policy because growing firms reinvest earnings. NL_TA, the ratio of net loans to total assets, indicates liquidity and is expected to positively correlate with DPR. Macroeconomic variables include GDPgrow, the annual growth rate in GDP, and Infl, the yearly inflation rate; both are expected to negatively correlate with dividend policy, reflecting changes in economic conditions. These controls help understand the isolated impact of CSR disclosure on dividend policy.

<Insert Table 2 about here>

Table 2 shows detailed information about measuring methods, predicted signs, and a short description for the set of explanted and explanatory variables in our study. Table 3 provides descriptive statistics for the main dividend policy variables, namely the DPR, and DIVPYER. In addition, the control variables for 225 bank-year observations. The descriptive results indicate a large difference in the DPR among Islamic banks. For instance, the minimum and maximum values of the *DPR* ranged from zero to 29.4 percent, with a median of 0.002, indicating that most Islamic banks prefer to hoard cash than paying as a dividend. In addition, *DIVPYER* varies between zero and one, with a median value of one, implying that most banks have a relatively higher chance of distributing dividends to their shareholders. The minimum and maximum values of *CSRD* are 18 percent and 63 percent, suggesting that some banks engage in social activities more than others. In term of control variables, *Leverage* ranged between 0.07 and 0.99, with a standard deviation of 0.23, indicating that most Islamic banks depend on customer's deposits rather than equity as a source of fund. In addition, *NL_TA* has a median value higher than the mean for all banks, implying that most Islamic banks have a stable liquidity position. On the other hand, *G_TA* has a median value lower than the mean for all banks, suggesting that most of Islamic banks achieving a growth rate in total assets below the average.

<Insert Table 3 about here>

4. Results and discussion

Table 4 shows the regression results of the CSR disclosure index and banks' DPR. In model 1, we regress the overall CSR disclosure index on DPR without considering the list of control variables. In model 2, we regress the overall CSR disclosure index on DPR by addressing the bank-specific control variables only. In model 3, we regress the overall CSR disclosure index on DPR with addressing macroeconomic variables. In model 4, we regress the overall CSR disclosure index by considering both bank-specific and macroeconomic variables. In all models, the results show that the overall CSR disclosure index has a negative and significant relationship with banks' DPR. In other words, more socially responsible banks distribute a low DPR. Our results in the line with "cost of the capital view" which posits that engaging in social activities lower the cost of equity capital (El Ghoul et al., 2011). Hence, firms prefer to hoard cash rather than paying as a dividend to get benefit from any investment opportunities at a lower cost of financing. In addition, Finance literature suggests that the amount of distributed dividends depends on the level of the trust between investors and firms' management (Breuer et al., 2014). Therefore, firms that have a lack of trust in their managerial decision among shareholders due to asymmetric information will lead shareholders to request a higher dividend as a reward against their investments. According to signaling theory, enrolling in different CSR activities help firms to restore and generate trust and confidence with their investors through better understanding firms' enhancing strategies (Swift, 2001). Consequently, investors will not demand a higher dividend. Moreover, Islamic banks are usually suffered in their liquidity and accessing short-term borrowings from different external sources (Beck et al., 2013; Čihák and Hesse, 2010). Substantially, they prefer to hold more liquid assets and free cash flow to meet any unexpected change in the requlatory capital requirements (Elnahass et al., 2018). Hence, these constraints could also explain the low level of DPR. Our results consistent with (Saeed and Zamir, 2021; Sheikh et al., 2021a) who, conclude a negative association between CSR activities and DPR. However, our results contradict (Benlemlih, 2019; Cheung et al., 2018; Samet and Jarboui, 2017) confirm a positive impact of the social activities on DPR. Unlike traditional banks, Islamic banks may adhere to a more rigorous ethical framework, emphasizing CSR initiatives that influence dividend allocation in distinct manners. This disparity underscores how Islamic banks navigate the balance between stakeholder welfare and shareholder

returns. Turing to control variables interactions with the DPR. *ROAA*, *Leverage*, and *NL_TA* are positively and significantly related to DPR, indicating that more profitable and leveraged firms are more likely to distribute a high dividend ratio to their shareholders. In addition, better liquidity positions among Islamic banks encourage them to pay more dividends. Our results also consistent with (Budagaga, 2020) who, concludes that the ability to distribute dividends depends mainly on the available cash rather than firms' reported earnings.

<Insert Table 4 about here>

Table 5 shows the regression results of the CSR disclosure index and banks' DIVPYER. In model 1, we regress the overall CSR disclosure index on the banks' DIVPYER without considering the list of control variable. In model 2, we regress the overall CSR disclosure index on the banks' DIVPYER with controlling for banks-specific variables. In model 3, we regress the overall CSR disclosure index on the banks' DIVPYER with taking into account the macroeconomic variables. In model 4, we regress the overall CSR disclosure index on the banks' DIVPYER with considering both banks-specific and macroeconomic variables. In all models, the results show that the overall CSR disclosure index has a positive and significant relationship with banks' DIVPYER. Suggesting that being socially responsible increases banks likelihood to distribute dividends to their shareholders. Our results consistent with (Dewasiri and Abeysekera, 2020; Sheikh et al., 2021a) who report that CSR activities and firms' DIVPYER are positively related. And inconsistent with (Cheung et al., 2018) who, conclude that involving in social activities reduce the chance to pay dividends. Our study presents a novel viewpoint by demonstrating a positive correlation. This diverges from previous research and indicates that certain Islamic banks successfully reconcile their CSR obligations with shareholder financial expectations. This indicates a potential transformation in the operational strategies of these banks, suggesting that CSR involvement may not restrict dividend distributions but could enhance shareholder return. Turning to control variables, *ROAA* is positively related to banks' DIVPYER, indicating that profitable banks are more likely to distribute dividends to their shareholders.

<Insert Table 5 about here>

Robustness tests

In Table 6, we investigate whether our empirical results are impacted by any changes in the proxies of the DPRs. We repeat our primary analysis shown in Table 4 after replacing the explained variable (DPR) with different measures of the DPR proposed by the literature review (Attig et al., 2016; Chay and Suh, 2009; DeAngelo et al., 2004; Saeed and Sameer, 2017). In Model 1, we scale the dividend per share by diluted earnings per share. In Model 2, we measure the DPR as the ratio of dividend per share divided by net income before extraordinary items. In Model 3, we use the natural logarithm of cash dividends. In all Models, the link between the overall CSR disclosure index and several dividends payout ratios is negative and significantly related. These results confirm our primary evidence that socially responsible firms distribute low cash dividends to their shareholders.

<Insert Table 6 about here>

Endogeneity concerns may happen when there is a violation of different assumptions, high correlation between the error term and explanatory variables, or unobservable heterogeneity (Greene, 2003). Following prior literature (Benlemlih, 2019; Boulanouar et al., 2021; Mallin et al., 2014), we adopt several approaches to address for endogeneity. Regarding DPR, we apply instrumental variable 2SLS,3SLS, and REmodels, respectively. Regarding DIVPYER, we apply Tobit and Probit models, respectively. We utilize the first lag of the CSR disclosure index as a valid instrument for the instrumental variable models according to the overidentification test results (Sargan, 1958). Additionally, we check the Durbin-Wu test and confirm that there is no endogeneity in the above models. Our empirical findings using the five endogeneity tests are provided in Table 7.

<Insert Table 7 about here>

In the line with the common argument among previous literature that aggregating several socially responsible activities may hide the real effects of the individual dimensions that constitutes the overall CSR disclosure index (Benlemlih, 2019; Bouslah et al., 2013), and to test our second hypothesis, we extend our investigation by analyzing the relationship between the individual dimensions of the CSR disclosure and measures of dividend policy to identify which of these dimensions has a substantial effect on dividend policy. As mentioned previously, our CSR disclosure index includes several bank activities. These activities are the mission and vision statement (MV),

products and services (PS), commitments towards community (CTC), commitments towards debtors (CTD), commitments towards employee (CTE), zakah, charity, and benevolent funding (ZCB). Using these couple of activities as main variables of interest. Table 8 shows the regression results of the relationship between the individual dimensions of CSR disclosure index on banks' DPR. The results show a negative and significant relationship between the mission and vision (MV) and banks' DPR, suggesting that disclose information about the banks' intention to support and adopt different social activities and their DPR are negatively related. This result is consistent with the aggregated analysis presented in Table 4. This finding also rejects our hypothesis that higher GCC Islamic banks' individual CSR disclosure increases banks' DPR. The control variable' relationship to banks' DPR is consistent with the aggregated CSR disclosure analysis presented in Table 4.

<Insert Table 8 about here>

Lastly, we show the regression results of the relationship between individual dimensions of CSR disclosure and bank' DIVPYER in Table 9. The results show that the individual dimensions of zakat, charity, and benevolent funding (ZCB) and commitment towards community (CTC) and banks' DIVPYER are positively and significantly related, implying that supporting community initiatives and contributing to charity associations increase the banks' likelihood to pay dividends to their shareholders. This result is consistent with the aggregated analysis presented in Table 5. This finding also in the line with our hypothesis that higher GCC Islamic banks' individual CSR disclosure increases banks' DIVPYER. The control variables' relationship to banks' DIVPYER is consistent with the aggregated analysis presented in Table 5.

<Insert Table 9 about here>

5. Conclusion

We examine the complex relationship between CSR disclosure and dividend policy of Islamic banks, uncovering numerous significant conclusions. Our data reveals a substantial inverse correlation between CSR disclosure and the DPR, indicating that socially responsible activities diminish paid cash dividends. In contrast, a notable positive correlation exists between CSR disclosure and the inclination to distribute

dividends, suggesting that expenditures in social and environmental initiatives enhance the probability of dividend payments. Disaggregated study indicates that the mission and vision (MV) dimension adversely impact the payout ratio, but zakat, charity, benevolent funding (ZCB), and commitment to community (CTC) positively affect the inclination to distribute dividends.

This study provides novel perspectives on CSR disclosure and Islamic banking. This study is the first to objectively connect overall CSR disclosure with dividend policy, analyzing the impact of each CSR dimension on dividend policy individually, while concurrently addressing the DPR and the inclination to distribute dividends. The homogeneous sample from GCC Islamic banks, which possess 41.7% of global Islamic finance assets (ICD-Refinitiv, 2020), along with the application of diverse econometric methodologies, reinforces our conclusions. Our findings offer practical implications for regulators, policymakers, investors, and Islamic bank management, indicating that CSR efforts serve as a method to mitigate free cash flow. Regulators could advocate for enhanced transparency in CSR reporting to cultivate trust and stability within the Islamic banking system. Improved CSR practices can function as a mechanism for banks to address investor expectations and alleviate agency issues associated with excessive investment in CSR projects (Benlemlih, 2014). Investors can enhance their investment decisions by recognizing the favorable association between CSR and the DIVPYER, especially within the framework of Islamic finance, where ethical concerns are crucial (Abdel-Wanis, 2020; Samet & Jarboui, 2017)..

Managers at Islamic banks must judiciously equilibrate CSR initiatives with dividend allocation. The study's conclusion indicates a negative correlation between CSR disclosure and the dividend payout ratio, implying that banks may be diverting resources towards social and ethical initiatives, possibly to the detriment of short-term shareholder profits. Managers must clearly convey this trade-off to shareholders, highlighting the long-term value generated by CSR. The affirmative correlation between CSR disclosure and the likelihood of dividend payments suggests that CSR functions as both an ethical obligation and an indicator of financial robustness. Managers can utilize CSR initiatives not only to meet religious and social obligations but also to improve the bank's brand and indicate financial stability to the market. This

can appeal to socially responsible investors and enhance stockholder confidence. Policymakers in the GCC and other Islamic finance regions should leverage these insights to enhance CSR frameworks inside Islamic banks. Regulators can encourage banks to include CSR into their business models by providing tax advantages or other incentives for CSR initiatives that conform to Islamic ethical standards. By doing so, authorities might strengthen the congruence between CSR and financial policy, motivating banks to engage in socially responsible activities without compromising shareholder interests and stakeholder confidence.

This study has limitations. The study predominantly examines Islamic banks in particular localities, perhaps constraining the applicability of the results. Subsequent research should seek to broaden the geographical scope and incorporate longitudinal studies to evaluate the changing dynamics between CSR and dividend policies over time. Furthermore, investigating the mediating influences of corporate governance frameworks and market dynamics on this relationship may yield profound insights into the intricacies of CSR within Islamic finance (Hunjra, 2018; Aulia, 2023; Buertey et al., 2023).**Reference:**

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Table 1 List of banks per country

Country name	Bank name
Bahrain	Al Baraka Islamic Bank, ABC Islamic Bank, Bahrain Islamic Bank, Khaleeji Islamic Bank, Kuwait Finance House (Bahrain), Al Salam

	Bank, First Energy Bank, Bank Alkhair, CITI Islamic Investment Bank, GFH Financial Group, International investment Bank
Kuwait	Kuwait International Bank, Boubyan Bank, Kuwait Finance House (Kuwait), WARBA Bank, Ahli United Bank
Qatar	Qatar Islamic Bank, Qatar International Islamic Bank, Masraf Al Rayan, Qatar First Bank
Saudi Arabia	Al Rajihi Bank, Al Jazeera Bank, Bank Al Bilad, Alinma Bank
The UAE	Abu Dhabi Islamic Bank, Al Hilal Islamic Bank, Emirates Islamic Bank
Oman	Alizz Bank, Nizwa Bank

Source: Bankfocus

Table 2 Definition of variables

Variable abbreviation	Description	Predicted sign
DPR	Cash dividends scaled by total assets	

DIVPYER	A binary variable equal one if the bank pays dividends and zero otherwise.	
CSRD	CSR disclosure index, calculated by using equation # (1) developed by (Haniffa and Hudaib, 2007).	+
Individual dimensions	Individual dimension denotes to six dimensions that use to measure the overall CSR disclosure index, namely, (mission and vision (MV), products and services (PS), commitment towards community (CTC), commitment towards debtors (CTD), commitment towards employees (CTE), zakah, charity and benevolent funding (ZCB)).	+
Bank-specific variables		
Size	The natural logarithm of the total assets	+
Leverage	Total equity divided by total assets	-
ROAA	Net income divided by average total assets	+
G_TA	The annual growth rate in the total assets	-
NL_TA	Net loans divided by total assets	+
Macroeconomic variables		
GDPgrow	The annual growth rate in the gross domestic product per country	-
Infl	The annual inflation rate	-

Source: bank-specific, and macroeconomic variables were collected from Eikon, Bankfocus, and world bank databases.

Table 3 Descriptive statistics

Variable	Obs	Mean	Standard deviation.	Min	Median	Max
DPR	225	0.010	0.030	0.000	0.002	0.294
CSRD	225	0.442	0.105	0.180	0.450	0.630
Size	225	6.529	0.941	3.970	6.660	8.010
Leverage	225	0.236	0.230	0.070	0.140	0.990
ROAA	225	0.006	0.049	-0.320	0.012	0.319
G_TA	225	0.099	0.229	-0.489	0.078	2.148
NL_TA	225	0.544	0.205	0.000	0.603	0.974
GDPgrow	225	0.031	0.027	-0.047	0.029	0.134
Infl	225	0.019	0.015	-0.021	0.022	0.058

This table summarizes the statistics of dividend policy proxies and control variables. DPR measure the DPRDIVPYER, respectively. CSRD represents the overall CSR disclosure index. Bank-specific variables include Size, Leverage, ROAA, G_TA, and NL_TA, while macroeconomic variables include GDP growth and Inflation.

Table 4 Results of CSR disclosure and banks' DPR

Variables	M1	M2	M3	M4
CSRD	-0.088***	-0.044***	-0.087***	-0.043**
	(0.000)	(0.009)	(0.000)	(0.012)
Size		-0.001		-0.001

		(0.726)		(0.678)
Leverage		0.051***		0.051***
		(0.000)		(0.000)
ROAA		0.251***		0.250***
		(0.000)		(0.000)
G_TA		-0.008		-0.008
		(0.269)		(0.264)
NL_TA		0.032***		0.033***
		(0.000)		(0.000)
GDPgrow			0.0376	0.034
			(0.632)	(0.585)
Infl			0.075	-0.041
			(0.603)	(0.723)
Cons	0.048***	0.004	0.046	0.004
	(0.000)	(0.812)	(0.000)	(0.822)
R2	0.091	0.458	0.095	0.458
Heterosc (robust)	yes	yes	yes	yes
Groups	29	29	29	29
N	225	225	225	225

This table presents OLS regression results between the overall CSR disclosure index (CSRD) and dividend payout ratio. Models M1, M2, M3, and M4 show the regression results for CSRD alone, CSRD with bank-specific variables, CSRD with macroeconomic variables, and CSRD with both bank-specific and macroeconomic variables, respectively. Definitions, calculation methods, and expected signs of control variables are in Table 2. Statistical significance is indicated by P-values in parentheses, with *, **, and *** denoting significance at the 10%, 5%, and 1% levels, respectively.

Table 5 Results of CSR disclosure and banks' DIVPYER

Variables	M1	M2	M3	M4
CSRD	5.261***	4.243***	5.506***	4.789***
	(0.000)	(0.009)	(0.000)	(0.005)
Size		0.339*		0.311

		(0.083)		(0.119)
Leverage		-0.336		-0.295
		(0.712)		(0.749)
ROAA		20.990***		21.980***
		(0.003)		(0.002)
G_TA		-1.340*		-1.207
		(0.071)		(0.100)
NL_TA		0.634		0.579
		(0.420)		(0.468)
GDPgrow			-2.029	-1.703
			(0.724)	(0.782)
Infl			-13.660	-16.750
			(0.209)	(0.162)
Cons	-1.816***	-3.835**	-1.595**	-3.510
	(0.003)	(0.017)	(0.013)	(0.033)
Heterosc (robust)	yes	yes	yes	yes
Groups	29	29	29	29
N	235	235	235	235

This table presents Logistic regression results between the overall CSR disclosure index (CSRD) and DIVPYER. Models M1, M2, M3, and M4 show results for CSRD alone, CSRD with bank-specific variables, CSRD with macroeconomic variables, and CSRD with both bank-specific and macroeconomic variables, respectively. Definitions, calculation methods, and expected signs of control variables are in Table 2. Statistical significance is indicated by P-values in parentheses, with *, **, and *** denoting significance at the 10%, 5%, and 1% levels, respectively.

Table 6 Alternative measures of DPR

Variables	M1	M2	M3
CSRD	-2.363**	-1.347***	-3.728**
	(0.016)	(0.006)	(0.018)
Size	0.251**	0.179***	2.783***

	(0.035)	(0.001)	(0.000)
Leverage	0.188	0.461	3.449***
	(0.714)	(0.113)	(0.000)
ROAA	2.963	1.645	7.254*
	(0.135)	(0.167)	(0.073)
G_TA	-0.297	-0.095	-0.926
	(0.469)	(0.677)	(0.214)
NL_TA	-0.014	-0.016	1.523
	(0.977)	(0.959)	(0.145)
GDPgrow	1.875	0.661	-3.059
	(0.626)	(0.718)	(0.621)
Infl	-0.704	1.912	3.109
	(0.919)	(0.566)	(0.782)
Cons	-0.182	-0.234	-8.458***
	(0.847)	(0.644)	(0.000)
Heterosc (robust)	yes	yes	yes
Groups	29	29	29
N	209	136	144

This table presents OLS regression results between the overall CSR disclosure index (CSRD) and alternative proxies of the DPR. Model 1 (M1) uses the ratio of dividend per share scaled by diluted earnings per share, Model 2 (M2) uses the ratio of dividend per share scaled by net income before extraordinary items, and Model 3 (M3) uses the natural logarithm of cash dividends. Definitions, calculation methods, and expected signs of control variables are in Table 2. Statistical significance is indicated by P-values in parentheses, with *, **, and *** denoting significance at the 10%, 5%, and 1% levels, respectively.

Table 7 Endogeneity concerns

Variables	DPR			DIVPYER	
	2SLS	3SLS	RE	Tobit	Probit
CSRD	-0.052**	-0.043***	-0.043***	0.970***	2.940***
	(0.014)	(0.010)	(0.012)	(0.003)	(0.004)
Size	0.001	-0.001	-0.001	0.074*	0.234*
	(0.891)	(0.671)	(0.677)	(0.066)	(0.051)
Leverage	0.050***	0.051***	0.051***	0.020	0.167
	(0.000)	(0.000)	(0.000)	(0.904)	(0.744)
ROAA	0.207***	0.250***	0.250***	2.607***	8.148***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
G_TA	-0.010	-0.008	-0.008	-0.243*	-0.629*
	(0.353)	(0.253)	(0.263)	(0.056)	(0.076)
NL_TA	0.032***	0.033***	0.033***	0.169	0.540
	(0.000)	(0.000)	(0.000)	(0.279)	(0.243)
GDPgrow	0.064	0.034	0.034	-0.254	-1.011
	(0.490)	(0.577)	(0.584)	(0.832)	(0.780)
Infl	-0.057	-0.0412	-0.041	-2.793	-9.874
	(0.686)	(0.718)	(0.723)	(0.204)	(0.162)
Cons	0.001	0.004	0.004	-0.319	-2.575***
	(0.950)	(0.818)	(0.821)	(0.311)	(0.008)
R2	0.375	0.458			
Heterosc	yes	yes	yes	yes	yes
Groups	29	29	29	29	29
N	197	225	225	235	235

This table presents regression results of the relationship between the overall CSR disclosure index (CSRD) and proxies of dividend policy. The first three columns use Two-Stage Least Squares (2SLS), Three-Stage Least Squares (3SLS), and Random-Effects models, respectively. The last two columns use Tobit and Probit models. Definitions, calculation methods, and expected signs of control variables are in Table 2. Statistical significance, reported as p-values, is provided in parentheses, with *, **, and *** denoting significance at the 10%, 5%, and 1% levels, respectively.

Table 8 Individual dimensions of CSR disclosure on bank' DPR

	MV	PS	ZCB	CTE	CTD	CTC
MV	-0.026**					
	(0.033)					
PS		-0.012				
		(0.332)				
ZCB			-0.011			
			(0.229)			
CTE				-0.011		
				(0.219)		
CTD					-0.012	
					(0.101)	
CTC						-0.007
						(0.290)
Size	-0.001	-0.002	-0.002	-0.002	-0.002	-0.002
	(0.981)	(0.519)	(0.319)	(0.428)	(0.581)	(0.372)
Leverage	0.051***	0.056***	0.055***	0.054***	0.057***	0.054***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ROAA	0.236***	0.254***	0.257***	0.253***	0.247***	0.260***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
G_TA	-0.008	-0.009	-0.009	-0.008	-0.008	-0.010
	(0.307)	(0.217)	(0.209)	(0.258)	(0.301)	(0.166)
NL_TA	0.030***	0.033***	0.029***	0.034***	0.034***	0.032***
	(0.001)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
GDPgrow	0.049	0.059	0.049	0.039	0.044	0.045
	(0.438)	(0.357)	(0.441)	(0.548)	(0.489)	(0.478)
Infl	-0.065	-0.075	-0.081	-0.057	-0.071	-0.073
	(0.576)	(0.521)	(0.486)	(0.632)	(0.542)	(0.532)
Constant	-0.004	-0.009	-0.002	-0.007	-0.011	-0.005
	(0.816)	(0.595)	(0.908)	(0.672)	(0.472)	(0.759)
R^2	0.454	0.445	0.446	0.446	0.449	0.445
Adj R2	0.434	0.424	0.426	0.426	0.429	0.425
Heterosc	yes	yes	yes	yes	yes	yes
Groups	29	29	29	29	29	29
N	225	225	225	225	225	225

This table shows the OLS regression results between the individual dimensions of CSR disclosure and banks' DPR. The definitions of the control variables, calculation methods, and expected signs are provided in Table 2. Statistical significance, as *P*-values, is reported inside the parentheses *, ** and *** refer to significance at 10%, 5% and 1% levels, respectively.

Table 9 Individual dimensions of CSR disclosure on bank' DIVPYER

	MV	PS	ZCB	CTE	CTD	CTC
MV	0.945					
	(0.391)					
PS		1.439				
		(0.221)				
ZCB			2.501***			
			(0.007)			
CTE				-0.152		
				(0.862)		
CTD					0.695	
					(0.296)	
CTC						1.068*
						(0.069)
Size	0.324	0.333*	0.422**	0.392**	0.351*	0.401*
	(0.121)	(0.096)	(0.032)	(0.045)	(0.077)	(0.041)
Leverage	-0.837	-0.899	-0.993	-1.066	-0.996	-0.596
	(0.359)	(0.315)	(0.279)	(0.245)	(0.257)	(0.515)
ROAA	23.720***	22.790***	23.980***	23.180***	22.270***	21.680***
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.004)
G_TA	-1.180	-1.136	-1.132	-1.103	-1.168	-0.997
	(0.102)	(0.116)	(0.105)	(0.123)	(1.105)	(0.165)
NL_TA	0.633	0.355	1.133	0.580	0.468	0.392
	(0.427)	(0.659)	(0.179)	(0.478)	(0.557)	(0.620)
GDPgrow	-3.346	-4.399	-2.353	-3.680	-2.968	-2.345
	(0.571)	(0.462)	(0.689)	(0.536)	(0.618)	(0.696)
Infl	-10.380	-10.700	-10.570	-8.367	-11.040	-10.860
	(0.364)	(0.349)	(0.352)	(0.465)	(0.338)	(0.341)
Constant	-2.074	-1.952	-3.340**	-1.845	-1.757	-2.574*
	(0.171)	(0.195)	(0.038)	(0.222)	(0.244)	(0.097)
Heterosc	yes	yes	yes	yes	yes	yes
Groups	29	29	29	29	29	29
N	235	235	235	235	235	235

This table shows the Logistic regression results between the individual dimensions of CSR disclosure and banks' DIVPYER. The definitions of the control variables, calculation methods, and expected signs are provided in Table 2. Statistical significance, as *P*-values, is reported inside the parentheses *, ** and *** refer to significance at 10%, 5% and 1% levels, respectively.