The Mediating Effect of Financial Performance on the Relationship between Shariah Supervisory Board Effectiveness, Intellectual Capital and Corporate Social Responsibility, of Islamic Banks in Gulf Cooperation Council Countries

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Abstract
The objective of this study was to determine the influence of Shariah Supervisory Board Effectiveness (SSBE) and Intellectual Capital (IC) on Corporate Social Responsibility (CSR) among 36 Islamic banks in Gulf Cooperation Council Countries (GCC) over the period of 2007-2011. Additionally, this study was aimed to identify the significance of financial performance (ROA, ROE) as mediator in the relationship between Shariah Supervisory Board Effectiveness (SSBE), Intellectual Capital (IC) and Corporate Social Responsibility (CSR). For the purpose of data analysis and hypotheses testing, several statistical methods such as multiple regression analysis were utilized to understand the variables. The results of this study reported that SSBE, Capital Employee Efficiency (CEE) and Structure Capital Efficiency (SCE) of Islamic banks positively influenced CSR. However, Human Capital Efficiency (HCE) did not influence CSR. The results of hierarchical multiple regression indicate that financial performance (ROA, ROE) was found to be a significant mediating factor for the relationship between SSBE, CEE, and SCE, and CSR in Islamic banks. The relationship between SSBE, IC, financial performance (ROA, ROE) and CSR suggested that it may be beneficial to the management of Islamic banks to increase CSR as discussed. Limitations and recommendations for future research were also highlighted.

Keywords: Shariah supervisory board, intellectual capital, financial performance, corporate social responsibility, and gulf cooperation countries

1. Introduction
In recent years, corporate governance has received considerable attention in Islamic finance. The extensive development of corporate governance in conventional finance has raised the issue of how Islamic corporate governance should be designed. The question arises as to whether or not it needs its own theoretical model or is it sufficient to modify conventional corporate governance structures. This question has prompted scholarly research to identify and define the foundational dimensions and characteristics of Islamic corporate governance.

A particular aspect necessary for the formulation of a theoretical foundation of Islamic corporate governance is to search for its epistemological orientation and to identify the theories associated with the existing corporate governance model. The main theories that have affected the development of corporate governance are agency theory, which is primarily concerned with the relationship between managers and shareholders, and stakeholder theory that takes account of a wider group of constituents (Mallin, 2007). These theories generate the two most dominant corporate governance models known as the shareholder value system and stakeholder value orientation. Another dimension of corporate governance in Islam which is different from the western concept refers to its epistemological orientation. The fundamental principles of Tawhid, shura, property rights and commitment to contractual obligation that govern the economic and social behavior require IFIs to comply with the Shariah rules and principles (Choudury & Hoque, 2004 & 2006; Iqbal & Mirakhor, 2004).
As part of the corporate governance framework in Islamic banks, Shariah governance is the most essential practice of Islamic finance in building and maintaining the confidence of the shareholders with the assurance that all transactions, practices and activities are in compliance with the Shariah principles. Shariah governance is now becoming more diverse and advance in parallel with the development of Islamic finance industry worldwide. In view of the impressive growth and increasing sophistication of the Islamic finance sector, Shariah governance of this rapidly evolving industry has proved challenging.

Today in most of the companies, intellectual capital makes a huge part of their market value. This employ to manufacturing related companies, high tech, and business providing services (proctor, 2006). We can say that due to lack or shortage of financial statements elaborating the value of an organization noting the reality that the economic value source is considered no more the production of material goods, but the establishment of intellectual capital is considered. Intellectual capital comprises of human capital, and structural capital covered in customers, procedures, brands of databases, and systems (Edvinsson & Malone, 1997).

Today managers are pro-active they know the reality that advantage of company is dependent on the knowledge of a company and how best and effective the use of knowledge is. One of the dependencies is the speed of new learning of a company. Provided the importance of economies emerging for the purpose of well being and balancing global economy, it is of utmost importance to develop an understanding of establishing of intellectual capital in various economic and socio political settings. Referring to Proctor (2006), land, labor or capital are no more considered the major constrain but the issue of more knowledge and intellectual capital (including component managers, skilled knowledge workers effective systems loyal customers and strong brands). A strong evidence exist that the companies focusing on increasing intellectual capital have gained good return for their shareholders and their competitors are outperformed on every financial measure (Proctor, 2006)

“Intellectual capital” has been a buzz word recently in the research community of the developed world. Thus, emerging economies are used in a few studies as a case for the purpose of analyzing the implementation of intellectual capital for particular industries (Kamath, 2007). The intellectual capital implementations are very clear in these emerging economies because they have made abundance of human capital at their disposal (Kamath, 2007). Therefore, the understanding has been necessary if this resource is being used effectively by their particular sectors to their benefits in establishing value over a period of time.

According to Kamath (2007), the banking sector is an ideal area for intellectual capital (IC) research because:

1. There are reliable data available in the form of published financial statements (balance sheets and income statement).
2. The business nature of banking sector is “intellectually” intensive; and the whole staff is (intellectually) more homogeneous than in other economic sectors.

The banking sector in any country is playing a vital role in making the economy on the track and in its procedure of development. It is being considered the main factor for project’s success and growth in both (industrial and developing) countries. With the emerging and rising competition both in national and international markets, the changeover regarding monetary unions and technological advancement herald key variation in the environments of banking and challenge all banks to develop timely preparations for entering in to a competitive financial environment (Tarawneh, 2006). The perspective of Islamic banking is a mode of Islamic financing where the capital and skill of the people are which comply with the Islamic shariah. Thus, knowledge sharing and transformation is of utmost importance for the management of knowledge. Not only the true knowledge of Islamic modes of financing is transferred by Islamic banks but also do increase the satisfaction and retention of customers.

The GCC countries have remarkable known economic, political, and cultural similarities which eliminate the available differences (Al-Muharrami & Matthews, 2009). The countries of GCC over all represent mature, effective, stable and profitable system of banking. In most of the GCC countries, the sector banking is the second top contributor the country’ GDP (Al-Obaidan, 2008). Thus, with the help of adopting appropriate policies related finances and economic for the purpose of making the banking sector more efficient is being considered the aim of the GCC to make their economy a global financial and trade centre (Al-Obaidan, 2008). Considering the important factors related to IC as a resource for the successful banking (Kamath, 2007; Goh, 2005), the banks of GCC countries are in need to make IC in use (internal and external). Due to this, they will be ready for the globalization challenges, will be competitive, and will be an offence for foreign banks and the growing demand of customers for new products and services (Al-Obaidan, 2008).
The status of being emerging and competitiveness of other countries has pressurized the countries of GCC financial sector in order to develop the efficacy of competition and to sustain its leading position in the world’s financial sector. Thus, the financial sector in the countries of GCC is in need to focus on improving the intellectual capital which has been known as the key factor of corporate competitive advantage. With a foreign look, this study is making an effort for the purpose of analyzing the impact of intellectual capital and observes the efficiency related the supervisory board of Shariah on the Islamic and CSR performance of the banks in GCC.

2. Literature Review

2.1 Shariah Governance

The most significant element that makes Islamic banks distinct from conventional ones is Shariah supervision. It is the sole method of certifying that the services, products offered by the bank and its operations adhere to Shariah principles. Hence, in the emerging Islamic financial sector, Shariah supervision is a matter of great importance with the corporate governance as the theme employed by the Shariah Supervisory Board. In Islamic banks, the supervision is more comprehensive as it originates from the Islamic principles. Shariah supervision is essentially the process of making sure that the financial product or service adheres to the precepts and principles of Islam either through its conformation to a recognized Islamic legal norm or its non-violation of the same (DeLorenzo, 2010). However, little has been documented regarding Islamic banking governance structure although Islamic banks have shown rapid growth in the 1970s and its increasing presence in the global financial market is evident (Hasan, 2009).

Islamic organizations dealing with Islamic transactions are imposed certain requirements by Islamic banks. Among the many significant requirements is the establishment of the Shariah board which is responsible for ensuring that transactions are all aligned with the principles enumerated in Shariah. The reason behind the establishment of SSB is to ensure that the transactions are based on Islamic principles because if they are not, then the majority of the people may lose confidence on it. These matters are basic to the enhancement of Islamic banking operations. The Fatwah and Shariah Supervision Board (SSB) is responsible for overseeing the application of various aspects of Shariah rules in the bank and it guarantees that the entire transactions adhere to the principles of Shariah. Moreover, the SSB has the authority to contradict any procedures that contradict Islamic principles. Moreover, the board of directors has to obey the fatwas provided by the SSB regardless if a consensus has been reached through a majority or a unanimous decision. In a related study, Grais & Pellegrini (2006) claimed that SSB prerogatives are based in five primary areas which are; certification of permissible financial instruments through fatwas (ex ante Shariah audit), verification of the compliance of transactions with the fatwas issued (ex post Shariah audit), the Zakat calculation and payment, deletion of non-Shariah payment compliant earning, advise concerning the income or expenses distribution to the bank shareholders and investment account holders. Every SSB draws up a report certifying the Shariah adherence of the financial transactions. Along with SSB, majority of Islamic financial institutions have set up internal Shariah Review structure referred to as the Shariah Review units – units that are not dependent on other departments but forms an integral part of the internal audit as well as the control department (Grais & Pellegrini, 2006).

The SSBs issues are linked to the Shariah board implemented functions, the important issues related to these functions include independence, confidentiality, competence, consistency, and disclosures (Grais & Pellegrini, 2006). A summary of the number of board positions were presented by Zawya (2010). In both Islamic finance institutions and conventional institutions having Islamic windows, the summary encapsulated 1141 board positions in a total of 28 countries. The average size of board is 3.33 scholars for every board throughout the entire world. The summary also listed statistics concerning the memberships of scholars in various boards where the first 20 scholars had 85-14 positions each. Finally, Grais & Pellegrini (2006) stated that the present Shariah practices to make sure that Shariah compliance primarily depends on internal corporate structure, specifically SSBs. The authors added that board members are faced with various challenges regarding their independence and the fact that there are only limited scholars holding both Shariah and financial backgrounds. Only a few studies in literature have been dedicated to studying the Shariah governance in IFIs (Islamic Finance Institutions) across jurisdictions. Among them, Grais & Pellegrini (2006) explained Shariah board practices in a total of 13 IFIs, Maali et al. (2006) examined 29 IFIs while Abomouamer (1989) studied 41 IFIs. Hasan (2011) attempted to present the state of Shariah governance practices in Malaysia and in GCC countries including Kuwait, Bahrain, U.A.E., Qatar and Saudi Arabia and the U.K. in light of the five main elements making a good corporate governance (i.e. independence, competency, transparency, disclosure and consistency). Based on Hasan’s (2011) survey findings, significant differences and diverse Shariah governance practices exist in the countries studied
indicating the presence of shortcomings and weaknesses in the present governance framework which requires more improvement and modifications.

2.2 Corporate Governance and Corporate Social Responsibility

Judging from the provided overview in the previous section, an evident overlap is noted between corporate governance and corporate social responsibility. More particularly, when viewing the broader CG conception, it is evident that good governance needs responsibility and attention to the desires of all stakeholders (Kendall, 1999) and the assurance of the company’s accountability to all stakeholders (Dunlop, 1998). A clear overlap is evident in the conception of CG and stakeholder conception of CSR that views business as an accountable complex network of interconnected stakeholders that contributes to firm value (Freeman, 1984; Post, Preston & Sachs, 2002; Jamali, 2008). Moreover, several CSR experts stressed on the requirement to maintain the highest standards of internal governance, especially in the literature of internal CSR dimension (Perrini, Pogutz, & Tencati, 2006; Rosam & Peddle, 2004; Grosser & Moon, 2005). CG and CSR require companies to fulfill their fiduciary and moral responsibilities towards all relevant stakeholders. The concept of accountability is important for a business hoping to gain and retain financial investors and stakeholders’ trust (Page, 2005). CG and CSR draw take their strength from similar sources including transparency, accountability, and honesty (Van den Bergh & Louche, 2005). Similarly, Marisglia & Falautano (2005) stated that effective CG and CSR initiatives are increasingly progressing from a philanthropic element of corporate capitalism to an accurate strategy that is intended to attract the trust of clients and society. CG implies ‘being held accountable for’ while CSR implies ‘taking account of’ and both are progressively being utilized by firms in their operations regulation (Beltratti, 2005; Marsiglia & Falautano, 2005).

With regards to CG, it has been noted that good governance mechanisms integrate the interests of owners, managers and dependents in the corporation and enables the securing of long-term capital, retention of confidence of financiers, and using the capital effectively. A case in point; Gompers, Ishii & Metrick (2003) found CG to be significantly related with stock returns and firm value while Ho (2005) revealed evidence that good CG improves the competitiveness of the firm and leads to superior financial performance. CSR maximizes the firm’s trustworthiness and supports the relationships with core stakeholders (Aguilera, Rupp & Ganapathi, 2007) which leads to minimized transaction costs and maximized attractiveness to investors (Hancock, 2005). Despite the controversial business case of CSR (Margolis & Walsh, 2003), majority of studies revealed that CSR can lead to decreased environmental costs, improved capability for innovation, improved recruitment/retention level, increased satisfaction of employees, and positive perceptions of the firm (Hancock, 2005; Aguilera et al., 2007; and Barnett, 2007). In reality, short-term costs may be spent on designing effective CG and CSR initiatives but several indicators also highlight a positive win-win result for businesses who are seriously employing both (Marsiglia & Falautano, 2005).

2.3 Intellectual Capital (IC)

The intellectual capital has been a buzz word in the field of research with reference to the countries developed in the world. Considering it bad luck, studies done in the emerging economies about intellectual capital, particularly analyzing its impact for industries in specific (Kamath, 2007). Making the study of Chen et al. (2005) the basis, the increasing difference among book value and firm market has gained a focus of researchers related the unseen value which has been removed from financial statements. It has been reported that the market value of a company is better than the book value; and the intellectual capital consist more in market value.

It has been reported by researchers that major competitive influencing factors consist skilled workers, managers, having efficient systems, customers which are loyal, and brand image, labor or capital (Proctor, 2006). There has been a proof that represents companies which have their focuses on intellectual capital have made a available high profits to stakeholders more than their competitors in every financial measures (Proctor, 2006). Today, management is focusing the reality that the competitive advantage of a company is in the knowledge and the use of knowledge by company, and the creativity and innovation of a company. Moreover, companies are of the view that the sources related to future cash flow will rise from the efficient management related to intellectual capital. Meeting the customer’s requirements consumers is to be considered and this knowledge for contracts bidding, problem solvency, making available superior and customized products and services. Now, corporate social responsibility is in need of senior management and board’s commitment, the staff commitment and skills provision, rewards incentives. It has been proved that staff participation and buy in on making available the corporate social responsibility of firm is being considered the main factor for success. Referring to case studies, HR activities can help in embedding the corporate social responsibility in the company, and provide advantages to bottom line (Redington, 2005).
Companies with Good CSR are making profitable the view of stakeholders that the company’s attitude and the people are committed with the values of corporate social responsibility. Barney (1991) has made an introduction of intellectual capital “the main corporate assets having efficacy of creating sustainable competitive advantage appropriate financial practices (cited in Appuhami, 2007).

In the above definition, intellectual capital, as a term, is significant as an asset which can contribute in a major way to the firm’s financial performance and can make the firm superior to its counterparts. Intellectual capital has been defined by Edvinsson & Sullivan (1996) as “knowledge that can be converted into value” (cited in Nazari & Herremans, 2007). This is evident in major corporate who have proven that developing a strong goodwill requires valuable human resources. In addition, Dess et al. (2008) defines the term as “the difference between the market value of the firm and the book value of the firm, including assets such as reputation, employee loyalty, and commitment, customer relationship, company values, brand names, the experience and skills of employees”. It is notable that the bond between the firm and customers honed through the years, the employees’ expertise and know-how both add value to the name of the firm.

2.4 Intellectual Capital (IC) and Corporate Social Responsibility (CSR)

Literature is rife with definition of corporate social responsibility (Secchi, 2007). Generally, it can be noted that the stress of CSR is on integration of voluntary attention to social and environmental issues into business behaviors in order to react to societal issues (Gray, 2010). This view advocates that the companies aims in adopting behaviors that are socially responsible differs from value maximization of shareholders to interaction capabilities.

According to Branco & Rodriguez (2006), CSR investments produce internal and external advantages. The former is related to the development of new resource and capabilities such as know-how and culture while the latter is related to the stakeholder relations and company reputation enhancement. On another note, Sisly & Lamertz (2007) stated that when CSR have a significant role in the company’s mission, it becomes visible in the external parts and generates specific benefits and a set of internal resources, and ensures an external defense allowing the company’s distinction from its counterparts. Hence, the company’s behavioral commitment to developing CSR strategies is considered a specific strategic edge.

In a related study, Bansal (2005) highlighted several reasons as to why CSR perspective recognizes the significance of intangibles in the company behaviors. Literature dedicated to CSR contains studies which have conducted analysis (implicit or explicit) concerning the relationship between CSRA and intangibles. In addition, Barnett (2007), and McWilliams et al. (2006) stated that intangibles play a key role in the company’s CSR effects and they interact together to affect the company’s value (Hillman & Keim, 2001). Most particularly, CSR possesses a set of positive impact on all the three IC categories (human, organizational and relational).

Regarding the CSR impact on relation capital, Branco & Rodriguez (2006) noted that company having high CSR profile are capable of establishing and improving their interaction with customers, suppliers, investors/bankers and as a result, improve their reputation level.

Moreover, Bhattacharya & Sen (2004) represent the corporate social responsibility as a positive influence on behavior of customers, improving the relationship of customer and company’s brand image. According to association with suppliers and the CSR benefits, it comprise; development of strategy and relationship with suppliers; and developing the ethical and social profile of suppliers, and practices; and the development corporate trust which may be the reason of increased orders (Mont & Laire, 2008). Focusing on financial association, the corporate social responsibility is the main factor influencing the company’s attraction to analyst and investors (Renneboog et al., 2008). These practicing corporate social responsibilities assist the reliability of the stakeholders of company and therefore, improve the operation of management. In accordance to Cordazzo (2005), the information if IC such as training of employee, characteristics of suppliers and consumer satisfaction are shown both in environment and social report of companies in Italy. Similarly, Cuganesan (2006) improves the perspective of corporate social responsibility and IC in their effort in analyzing the main performance indicator of intellectual capital in the banks of Australia.

Moreover, Pedrini (2007) focused on intellectual capital searching which are the same factors among intellectual capital and global reporting guidelines considering a sample of twenty international (IC) report. Large overlapping indicators were shown which were used by the two reports about intellectual or human capital. The main overlapping areas are present in the description form of features of human capital, measuring the quality of the conducted training programs, and the knowledge about opportunities and diversity. A need for a separate report was concluded which will encapsulate the information in order to show the influence of the practice of a company on corporate citizenship, the development of IC and the association of the two.
The IC and CSR relationship was also examined by Frey et al. (2008). They focused on analyzing the Italian universities’ practices of social reporting and provided a detailed report on the methodology developed by best practice of their sample, to explain the social and the intangible dimension of its activities. They confirmed on various areas of overlap between IC and CSR human capital disclosure and emphasized on the fact that intangible assets is among the major drivers in the processes of value creation of such organization. Moreover, Castillo & Gallardo (2008) conducted a theoretical analysis of the potential convergence of reports. They claimed that currently, IC plays a key role in the process of value creation of companies compared to the business social facets.

As mentioned, several overlaps exist between CSR and IC and their reports show similarities. The possible convergence between them in one report is a critical one that should be further examined to comprehend the actual issue (Lev & Zambon, 2003).

Adding more, learning is being considered a new motive for corporate development represented with the help of successful companies which are bringing creativity, new technologies, skill, and learning of employees as in contrast to typical assets related to machinery and plant. Typical measures of practices like growth rate, sales, and return for shareholders are no more considered enough for making an appropriate and strategic decision. It has been realized but management that these precautions must be supported in order to represent the developed value in the organizational process. In accordance to Roos, G. & Roos, J (1997), IC, has been considered the intangible motive of sustaining market leadership, increasing sales, and creating value for stakeholders. Thus, researchers are making their efforts to find out the way to evaluate the link between corporate governance and human capital or corporate social responsibility. Making the basis of the provided reports by the Sustainability reporting Guidelines, Global Reporting Initiative, Amsterdam, 2010, was using the perspective corporate social responsibility in the idea of of a sustainable reporting of IC which is represented with performance.

The literature has made available the three factors of IC relational, human, and organizational capital. Intellectual capital means learning of employees and showing the commitment and loyalty to the organization and their encourage which is developed from the company’s enhancement. Relational capital means the value of an organization which is stemmed from the link of he firm and communication with consumers and from the existing and future hidden suppliers, stakeholders, society and agents while organizational capital means the supportive and helping structure of company for learning and learning deployment, and knowledge, skills and the efficacly in the structure of an organization. On another take of IC, Nestian (2007), Armstrong & Saint-Onge (2007) sorted IC in internal, external, and individual. The individual means the base learning consist of talents, skills, employee’s education and training, with the expertise and experience they have.

Moreover, the component i.e. internal is explained by organizational models, culture, production and quality management system, and the system of information. At last, the external refers to relationship with customers, suppliers, and other partners in the value chain. In previous decade, the searches of IC have focused on IC voluntary disclosure evaluation of companies in the evaluation of behavior of company about reporting information like this. Intangibles and their role in value creation is in need of reporting and companies must investigate an appropriate way of reporting for the purpose of making available the extensive information to assist them in evaluating the company in a proper manner.

3. Research Hypothesis

3.1 Shariah Supervisory Board Effectiveness (SSBE) and Corporate Social Responsibility (CSR)

According to Pfeffer and Salancik (1978) boards provide advice, counsel and know-how, legitimacy and reputation, channel for communicating information with external organizations, and preferential access to commitments or support from important factors outside the firm. The boards perform these functions through social and professional networking (Johannisson & Huse, 2000) and interlocking directorates (Lang & Lockhart, 1990). Corporate governess generally enhances firm competitiveness and results in superior financial performance. CSR in turn increases the trust worthiness of a firm and strengthens relationships with core stakeholders (Aguilera, Rupp & Ganapathi, 2007), which may lead to decreased transaction costs and increased attractiveness in the eyes of investors (Hancock, 2005). There are also several indicators pointing to positive win-win outcomes for businesses that are seriously committed to both (Marsiglia & Falautano, 2005). From the view point of corporate governance, Islamic banking embodies a number of interesting features since equity participation, risk and profit loss sharing arrangements form the basis of Islamic finance and provide advice to maximize profits in accordance with the provisions of the Islamic Shariah and the expectations of the Muslim community and charitable activities of the community as having a stake in this activity. According to stakeholder theory, maximizing the shareholder returns is not the sole objective; interests of all stakeholders should be
equally honored and the resource dependency theory focuses on the crucial role that the directors play in providing or securing essential resources to the company through their linkages to the external environment. Hence, the following hypothesis is developed for (SSBE):

\[ H1: \text{There is a positive relationship between SSBE and Corporate Social Responsibility (CSR) of Islamic banks in the GCC.} \]

3.2 Intellectual Capital (IC) and Corporate Social Responsibility (CSR)

This portion consists of the discussion on the association among (SCE) (HCE) (CEE) and CSR. The role of intellectual capital is being considered an increasing role in the corporate financial activity of companies and contributing to the financial achievements like analyzing the market (Bozbura, 2004; Brennan, 2001; Petty & Guthrie, 2000). If this mentioned association is true among financial performance and human capital, the searched literature which has shown a positive and significant association between corporate social responsibility and financial performance, it can be concluded that the human capital would pose a significant relationship on corporate social responsibility. Thus, a positive relationship between human capital and the activities of CSR can be assumed (Razafindrambinina & Kariodimedjo, 2011).

According to Sumita (2005) intellectual capital and corporate social responsibility is considered as the same thing on two different sides of the same coin. Both the terms explain the interface that link society and companies. Particularly, the various aspects of the management and maintenance of intellectual capital within a firm coincide and are complimentary towards the CSR activities of a company. The association among IC and CSR reporting was also studies by Frey et al. (2008). On the basis of Resource Based Theory (RBT), companies depend on heterogeneous set of resources and capabilities that are different and not perfectly mobile across companies. These resources include physical assets that matters like company’s financial matters, property, plant, equipment and raw materials and intangible assets which includes company’s reputation, work environment, and human capital. Nevertheless, as these resources and capabilities become valuable, rare, inimitable and irreplaceable, they can bring a sustainable competitive advantage. Moreover, results in the past show that financial performance is a function of the effective and efficient use of related tangible and intangible assets of the firm, the following hypotheses are therefore developed for, Human Capital Efficiency (HCE), Capital Employed Efficiency (CEE), Structural Capital Efficiency (SCE):

\[ H2: \text{There is a positive relationship between Human Capital Efficiency (HCE) and Corporate Social Responsibility (CSR) of Islamic banks in the GCC.} \]

\[ H3: \text{There is a positive relationship between Capital Employed Efficiency (CEE) and Corporate Social Responsibility (CSR) of Islamic banks in the GCC.} \]

\[ H4: \text{There is a positive relationship between Structural Capital Efficiency (SCE) and Corporate Social Responsibility (CSR) of Islamic banks in the GCC.} \]

3.3 Shariah Supervisory Board Effectiveness (SSBE) and Financial Performance

Previous studies (Rajan & Zingale, 1998; Brickly et al., 1994; Williams, 2000; Drobetz et al., 2003; Byrd & Hickman, 1992; Hossain et al., 2000; Rosenstein & Wyatt, 1990; Gemmill & Thomas, 2004; Weisbach, 1988) have established positive relationships between good corporate governance practices and firm performance. Therefore, according to the responsibilities, functions and characteristics of the SSB, and the resource dependency theory and stakeholder theory, the following hypotheses are postulated:

\[ H5a: \text{There is a positive relationship between SSBE and financial performance (ROA) of Islamic banks in the GCC.} \]

\[ H5b: \text{There is a positive relationship between SSBE and financial performance (ROE) of Islamic banks in the GCC.} \]

3.4 Intellectual Capital (IC) and Financial Performance

According to resource based theory, the effective and efficient use of human capital will lead to an improvement in financial performance this is consistent with the contentions of most studies that used VAIC model as the primary measurement of intellectual capital (see for example, Goh, 2005; Kamath, 2007; Ku Ismail & Karem, 2011; Mavridis, 2004; Mavridis & Kyrizoglou, 2005). These studied found a positive relationship between human capital efficiency and financial performance. Therefore, this study hypothesizes as follows:

\[ H6a: \text{There is a positive relationship between Human Capital Efficiency (HCE) and financial performance (ROA) of Islamic banks in the GCC.} \]
There is a positive relationship between Human Capital Efficiency (HCE) and financial performance (ROE) of Islamic banks in the GCC.

Resource based theory argues that the effective and efficient use of tangible and intangible assets will lead to a better corporate finance. In addition, previous studies (Chen et al., 2005; Goh, 2005; Kamath, 2007) found the capital employed efficiency to be positively associated with financial performance.

On the basis of Resource Based Theory (RBT), companies depend on heterogeneous set of resources and capabilities that are distinct and not perfectly mobile across companies. These resources carry physical assets that matters like company’s financial matters, property, plant, equipment and raw materials and intangible assets which includes company’s reputation, work environment, and human capital. Nevertheless, as these resources and capabilities become valuable, rare, inimitable and irreplaceable, they can bring a sustainable competitive advantage and therefore, this study hypothesizes as follows:

There is a positive relationship between Capital Employed Efficiency (CEE) and financial performance (ROA) of Islamic banks in the GCC.

There is a positive relationship between Capital Employed Efficiency (CEE) and financial performance (ROE) of Islamic banks in the GCC.

Structural capital efficiency is used as an indicator of value added efficiency of structural capital. According to resource based theory, the effective and efficient use of structural capital will lead to improved financial performance. Mostly, On the basis of Resource Based Theory (RBT), companies depend on heterogeneous set of resources and capabilities which are distinct and not perfectly mobile across companies. These resources carry physical assets that matters like company’s financial matters, property, plant, equipment and raw materials and intangible assets which includes company’s reputation, work environment, and human capital. Nevertheless, as these resources and capabilities become valuable, rare, inimitable and irreplaceable, they can bring a sustainable competitive advantage. Therefore, this study hypothesizes as follows:

There is a positive relationship between Structural Capital Efficiency (SCE) and financial performance (ROA) of Islamic banks in the GCC.

There is a positive relationship between Structural Capital Efficiency (SCE) and financial performance (ROE) of Islamic banks in the GCC.

Financial performance and Corporate Social Responsibility (CSR)

Previous literature presented by Donaldson & Preston, 1995; Freeman, 1984 believed that Corporate Social Performance (CSP) has positive association with CFP. Moreover, Moskowitz (1972) observed a positive association lies among socially responsible business practices and corporate equity returns. Similar research carried out by Balabanis, G., et al. (1998) studied effect of indicators like return on capital employed and return on assets, not only this but exposed a positive relationship between the social responsibility of companies and the selected indicators of performance.

According to stakeholder theory the following hypotheses can be postulated:

The higher the (ROA), the higher will be the Corporate Social Responsibility (CSR) of Islamic banks in the GCC.

The higher the (ROE), the higher will be the Corporate Social Responsibility (CSR) of Islamic banks in the GCC.

Mediating Effect of Financial Performance

According to Baron and Kenny (1986), a mediating variable is the third variable that explains the direct relationship between independent and dependent variable. For a variable to be considered a mediator, it must be significantly related to independent and dependent variables.

Based on resource dependency theory, SSBE would influence financial performance which in turn would influence corporate social responsibility. It is suggested that better corporate governance practices would result in higher financial performance and hence higher corporate social responsibility. Thus, it is expected that:

(ROA) mediates the relationship between SSBE and Corporate Social Responsibility (CSR).

(ROE) mediates the relationship between SSBE and Corporate Social Responsibility (CSR).
3.6.2 Mediating Effect of Financial Performance on the Relationship of IC and CSR

For intellectual capital, and the resource based theory, (HCE, CEE and SCE) would influence the financial performance which in turn would influence corporate social responsibility. It is suggested that better (HCE, CEE and SCE) would result in higher financial performance and hence higher corporate social responsibility. Thus, it is expected that:

H6a: (ROA) mediates the relationship between HCE and Corporate Social Responsibility (CSR).
H6b: (ROE) mediates the relationship between HCE and Corporate Social Responsibility (CSR).
H7a: (ROA) mediates the relationship between CEE and Corporate Social Responsibility (CSR).
H7b: (ROE) mediates the relationship between CEE and Corporate Social Responsibility (CSR).
H8a: (ROA) mediates the relationship between SCE and Corporate Social Responsibility (CSR).
H8b: (ROE) mediates the relationship between SCE and Corporate Social Responsibility (CSR).

4. Research Method and the Study Models

This study applies panel data study for five continuous years from 2007 to 2011. A static panel is adopted over five years for 36 (180 observations) Islamic banks in GCC. This represents about 67% of the total number of Islamic banks in the Gulf Cooperation Council (GCC). Static panel offers a sensitive measurement of the changes that are made between specific points in time (Cavana, Delahaye, & Sekaran, 2000). The years 2007 to 2011 were selected as 2011 was the latest financial year in which all banks’ published annual reports were available. This time coincides with the time of commencement of data collection for this study.

Corporate social responsibility is taken as a dependent variable in current research which can be measured by numerous indicators. In Ji-ming & Hao-bai, (2007) views, corporate social responsibility can taken as the sum of all the expenses of the bank incurred on the activities of social responsibility according to the data availability. The recent study believes that higher (SSBE) and (IC) result into better performance (ROA, ROE) that will take to improved bank social responsibility. In this case, the CSR criteria has the amount of donation in a year, expenditure on staff training, expenditure on other working condition improvements and community (Qard Hasan, Zakah, employees expenses, Waqf, charitable activities, expenditure on training and other working condition improvement, community involvement expenditure, remuneration, cost of Shariah Board, Micro and small sized business, social savings and investments) involvement expenditure disclosed in annual statements.

Financial performance got the status of a mediating variable in the study that can be measured by return on asset (ROA). It shows firm’s efficiency in utilizing total assets, and return on equity (ROE) that indicates returns on shareholders of common stocks, and is usually taken as an important financial indicator for investors.

Several previous studies (e.g. Al-Matari, et al., 2014, Byrd & Hickman, 1992; Chen et al., 2005; Drobetz et al., 2003; Gazor et al., 2013; Hossain et al., 2000; Ku Ismail & Abdul Kareem, 2011; Jafari, 2013; Ping et al., 2006; Kujansivu & Lonqvist, 2007; Mahoney & Roberts, 2002; Nazari & Herremans, 2007; Oliver & Porta, 2006; Rosenstein & Wyatt, 1990; Waddock & Graves, 1997; Yalama & Coskun, 2007) have used return on asset (ROA) and return on equity (ROE) as a measure of financial performance either alone or in addition to other measures in their studies of the influence of intellectual capital and corporate governance of firms. Return on asset (ROA) is calculated by dividing net income by total assets whereas return on equity (ROE) is calculated by dividing net income by total equity.

According to resource dependency theory, larger boards are more likely to include more pool of expertise that will enhance board information processing capabilities. Board members will mitigate individual directors’ deficiencies in business skills through collective decision making which in turn improves the quality of firm strategic decisions and actions (Abeysekera, 2010; Ruigrok et al., 2006). Several studies (John & Senbet, 1998; Sharma, 2011) have used effectiveness as a measure of corporate governance. In this study, the measurement of the SSBE is calculated using the score of education level (Shariah board Shaikh, Shariah board doctor, and Shariah board Shaikh doctor) of the Shariah board members.

Bank size, leverage and age are considered as control variables because financial performance of a bank may be affected directly or indirectly by them. Bank size is measured by natural logarithm of total assets (Al Matari et al., 2014; Khabat et al., 2011), Bank age is measured by the time of listing or the time of incorporation (Shumway, 2001), while leverage is measured by the ratio of ratio of total liabilities to total assets (Al Matari et al., 2014).

Regarding to above relationship between independence, mediator, control variables and dependence variable that the following models will be used:
CSR = α + a₁ (SSBE) + a₂ (HCE) + a₃ (CEE) + a₄ (SCE) + a₅ (Control Variables) + e
F.P = α + b₁ (SSBE) + b₂ (HCE) + b₃ (CEE) + b₄ (SCE) + b₅ (Control Variables) + e
CSR = α + c₁ (F.P) + c₂ (Control Variables) + e
CSR = α + d₁ (SSBE) + d₂ (HCE) + d₃ (CEE) + d₄ (SCE) + d₅ (FP) + d₆ (Control Variables) + e

Where:
α₀ - Constant
SSBE: Shariah Supervisory Board Effectiveness.
CEE: Capital Employed Efficiency.
HCE: Human Capital Efficiency
SCE: Structure Capital Efficiency.
CSR: Corporate Social Responsibility.
e = allowed error.

5. Data Analysis and Results

Data is run through statistical package for social science (SPSS), Version 19 and (STATA), Version 12. Prior to hypotheses testing, some initial steps have to be completed to guarantee good and quality data. These steps also include data cleaning and screening (Sekaran, 2003).

This study uses balanced panel data because it is a more sensitive measurement of the changes that could take place between points in time (Cavana, Delahaye, & Sekaran, 2001). The results produced are more robust, consistent, and more stable to make generalization about the population. This implies that the samples are more representative and the results are meaningful.

5.1 Descriptive Statistic

Table 1 presents the descriptive statistics of the variables. The average of Shariah Supervisory Board Effectiveness (SSBE) is 0.670. Its minimum value is 0.333 and the maximum is one. The proportion of Human Capital Efficiency (HCE) is 5.578, with the minimum of -17.22 and maximum of 19.939. Frequency of Capital Employee Efficiency (CEE) conduct is about 0.0718. It has the minimum value of -0.418 and the maximum value of 0.667. The percentage Structure Capital Efficiency (SCE) estimated is given as 0.802. The minimum and maximum value of this efficiency is estimated to be -6.129, 13.158 respectively. For the performance measures, the minimum and maximum values of ROA are respectively estimated to be -0.452 and 0.423 while its average value is 0.0122. Another measure of performance, ROE has an average value of 0.059, with the minimum of -0.860 and maximum of 0.688. The mean value for Corporate Social Responsibility (CSR) is estimated at 6.883 while its minimum and maximum values are 1.018 and 12.305 respectively. The maximum age of the banks is 44 years while its minimum value is one year. The mean of the age estimated is 16.022. The mean value for leverage (LV) is .49861. It has the minimum of .002 and the maximum of .940. The average of bank size is 6.870 with minimum of 2.079 and maximum of 9.71.

Table 1. Descriptive statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum Statistic</th>
<th>Maximum Statistic</th>
<th>Mean Statistic</th>
<th>Std. Deviation Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSBE</td>
<td>0.333</td>
<td>1</td>
<td>0.67</td>
<td>0.22</td>
</tr>
<tr>
<td>HCE</td>
<td>-17.229</td>
<td>19.939</td>
<td>5.578</td>
<td>4.683</td>
</tr>
<tr>
<td>CEE</td>
<td>-0.418</td>
<td>0.667</td>
<td>0.071</td>
<td>0.083</td>
</tr>
<tr>
<td>SCE</td>
<td>-6.129</td>
<td>13.158</td>
<td>0.802</td>
<td>1.497</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.452</td>
<td>0.423</td>
<td>0.012</td>
<td>0.096</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.86</td>
<td>0.688</td>
<td>0.059</td>
<td>0.205</td>
</tr>
<tr>
<td>CSR</td>
<td>1.018</td>
<td>12.305</td>
<td>6.883</td>
<td>2.528</td>
</tr>
<tr>
<td>age</td>
<td>1</td>
<td>44</td>
<td>16.022</td>
<td>13.165</td>
</tr>
<tr>
<td>lv</td>
<td>.002</td>
<td>.940</td>
<td>.49861</td>
<td>.34257</td>
</tr>
<tr>
<td>size</td>
<td>2.079</td>
<td>9.71</td>
<td>6.87</td>
<td>1.392</td>
</tr>
</tbody>
</table>
Not: N = 180. SSBE is score of number shariah supervisory board (shikh, doctor, shikh doctor); HCE = dividing value added by human capital. It represents total expenditures on employees; CEE = dividing value added by capital employed. It represents the sum of physical and financial capital; SCE = difference between value added and human capital; ROA = the ratio of net income over total assets; ROE = the ratio of net income over equity book values; CSR= is log of sum of all the expenses of the bank used for the activities of social responsibility; age= numbers of years of bank; lv (leverage) = the ratio of total liabilities to total assets.

5.2 Correlation Analysis

The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study (Sekaran & Bougie, 2010). A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2003). From the results in Table 2, all correlations are less than 0.80 in general. Therefore, there is no issue of multicollinearity between independent variables (Gujarat & Porter’s, 2009).

<table>
<thead>
<tr>
<th></th>
<th>CSR</th>
<th>SSBE</th>
<th>HCE</th>
<th>CEE</th>
<th>SCE</th>
<th>age</th>
<th>lv</th>
<th>size</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSBE</td>
<td>.346**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HCE</td>
<td>.473**</td>
<td>.234**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEE</td>
<td>.372**</td>
<td>.083</td>
<td>.458***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>SCE</td>
<td>.220**</td>
<td>.021</td>
<td>.023</td>
<td>-.010</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>age</td>
<td>-.054</td>
<td>.180**</td>
<td>.136</td>
<td>-.150**</td>
<td>.084</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>lv</td>
<td>-.194**</td>
<td>.181**</td>
<td>-.016</td>
<td>-.178**</td>
<td>.049</td>
<td>.403**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>size</td>
<td>.419**</td>
<td>.345**</td>
<td>.156**</td>
<td>-.121</td>
<td>.124</td>
<td>.214***</td>
<td>.116</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>.151**</td>
<td>.267**</td>
<td>.356**</td>
<td>.416**</td>
<td>-.213**</td>
<td>.083</td>
<td>.056</td>
<td>-.066</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>.212**</td>
<td>.346**</td>
<td>.350**</td>
<td>.219**</td>
<td>-.196**</td>
<td>.150**</td>
<td>.210**</td>
<td>.203**</td>
<td>.618**</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: * p < 0.10, ** p < 0.05, *** p < 0.01

5.3 Multiple Liner Regression Analysis

In order to achieve the research objective: “to examine the corporate social responsibility through intellectual capital and shariah supervisory board effectiveness mediated by financial performance”, a regression analysis was performed. Before performing the regression analysis, the data are first examined to detect whether there is any serious violations of the basic assumption underlying the regression analysis, namely linearity, normality and homosecdasticity (Hair et al., 2010). Another concern for the current study is to find out whether financial performance mediates the relationship between intellectual capital, shariah supervisor board effectiveness and corporate social responsibility. To address this concern, mediation conditions proposed by Baron and Kenny (1986) are followed in the current study.

We performed model specification for the models. For each model, we did tests such as whether our models should be pooled, random effects or fixed effects models by using Hausman test and Breusch and Pagan Lagrangian multiplier test. Further, we checked the assumptions such as heterocedasticity. To decide whether our model is random or fixed, we should look to the result of Hausman. If the result of Hausman is significant, we must use fixed effects model and if not, use random effects model, in our result Hausman was significant.

The results shown in Table 3 under fixed model (Shariah Supervisory Board Effectiveness and (HCE, CEE, SCE) explain 56% of the variance of Corporate Social Responsibility (CSR), with the $R^2 = 0.5604$, ($p = 0.000$). The results also show that shariah supervisory board effectiveness have a positive significant effect on corporate social responsibility (with $\beta = 2.612$, and $p< 0.01$). From the results table, Human Capital Efficiency (HCE) is found not to influence Corporate Social Responsibility (CSR) (with the $\beta = 0.0899$, and the $p> 0.1$). The regression analysis result exhibits that the relationship between the Capital Employed Efficiency (CEE) and the Corporate Social Responsibility (CSR) are positively significant at 1% level (with the $\beta = 5.535$, and $p< 0.01$).
the regression analysis result exhibits that the relationship between the independent variable [Structure Capital Efficiency (SCE)] and the dependent variable [Corporate Social Responsibility (CSR)] is positively significant at 1% level ($\beta = 0.247, p < 0.01$). Beta values are used to compare the contribution of each independent variable to the dependent variable (Pallant, 2007). Therefore, the largest beta coefficient is estimated at $\beta = 5.535$ for Capital Employed Efficiency (CEE). This is followed by the Shariah Supervisory Board Effectiveness, $\beta = 2.612$.

Table 3. Regression result of CSR with independent variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Ex. sign</th>
<th>Beta</th>
<th>$t$-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSBE</td>
<td>+</td>
<td>2.612</td>
<td>3.20***</td>
</tr>
<tr>
<td>HCE</td>
<td>+</td>
<td>0.0899</td>
<td>1.50</td>
</tr>
<tr>
<td>CEE</td>
<td>+</td>
<td>5.535</td>
<td>3.82***</td>
</tr>
<tr>
<td>SCE</td>
<td>+</td>
<td>0.247</td>
<td>4.09***</td>
</tr>
<tr>
<td>size</td>
<td></td>
<td>0.831</td>
<td>5.16***</td>
</tr>
<tr>
<td>lv</td>
<td></td>
<td>1.528</td>
<td>2.42**</td>
</tr>
<tr>
<td>age</td>
<td></td>
<td>-0.047</td>
<td>-0.57</td>
</tr>
</tbody>
</table>

$R^2 = 0.5604$
$p$-value = 0.000

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The results in Table 4, under fixed model shown the relationship between the independent variables and financial performance (ROA) is significant ($p = .000$). In this study, the value of $R^2$ is 0.4692, which implies that 47% of the variance in Return on Assets (ROA) is explained by independent variables. The values of Beta are used to compare the contribution of each independent variable to the dependent variable (Pallant, 2007). The largest beta coefficient is ($\beta = 0.350$) for CEE. This is followed by SSBE ($\beta = 0.248$), and SCE ($\beta = -0.0128$).

The regression analysis result of financial performance (ROE). From the results, the overall relationship between the independent variables and the dependent variable is significant at 1% level ($p = .000$). In this study, the value of $R^2$ is 0.3298 implying that 33% of the variance in return on equity (ROE) is explained by independent variables. The largest beta coefficient is estimated at $\beta = 0.463$ for CEE and it is followed by SSBE, ($\beta = 0.355$).

Table 4. Regression result of FP (ROA, ROE) with independent variables

<table>
<thead>
<tr>
<th>Depend Variable</th>
<th>Ex. Sign</th>
<th>Beta</th>
<th>$t$-value</th>
<th>Beta</th>
<th>$t$-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSBE</td>
<td>+</td>
<td>0.248</td>
<td>3.52***</td>
<td>0.355</td>
<td>2.33**</td>
</tr>
<tr>
<td>HCE</td>
<td>+</td>
<td>0.00330</td>
<td>0.81</td>
<td>0.00388</td>
<td>0.44</td>
</tr>
<tr>
<td>CEE</td>
<td>+</td>
<td>0.350</td>
<td>2.24**</td>
<td>0.463</td>
<td>1.71*</td>
</tr>
<tr>
<td>SCE</td>
<td>+</td>
<td>-0.0128</td>
<td>-2.25**</td>
<td>-0.0266</td>
<td>-1.72*</td>
</tr>
<tr>
<td>size</td>
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<td>-0.00064</td>
<td>-0.04</td>
<td>0.88</td>
<td>-0.04</td>
</tr>
<tr>
<td>lv</td>
<td></td>
<td>-0.170</td>
<td>-1.50</td>
<td>-0.170</td>
<td>-1.50</td>
</tr>
<tr>
<td>age</td>
<td></td>
<td>-0.0074</td>
<td>-1.92*</td>
<td>-0.0074</td>
<td>-1.92*</td>
</tr>
</tbody>
</table>

$R^2 = 0.4692$
$p$-value = 0.000

$R^2 = 0.3298$
$p$-value = 0.000

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 5 shows the results of regression analysis of the influence of financial performance (ROA and ROE) on corporate social responsibility. In particular, it shows the result of the effect of ROA, ROE on corporate social responsibility.

From the results, ROA is estimated to be positively significant ($p < 0.01$ and $\beta = 3.599$) with the corporate social responsibility (CSR). In addition, the results indicate that $R^2 = 0.3691$, which implies that about 37% of the variance in corporate social responsibility is significantly explained by return on assets (ROA). Banks with higher return on assets (ROA) are more likely to report high level of the corporate social responsibility.
The result of the effect of ROE on corporate social responsibility. From the results, ROE is estimated to be positively significant ($\beta = 1.487, p < 0.05$) in influencing corporate social responsibility. The results also indicate that $R^2 = 0.3565$, which implies that about 36% of the variance in corporate social responsibility is explained significantly by return on assets (ROE). This implies that banks with higher return on assets (ROE) are more likely to report high level of the corporate social responsibility.

Table 5. Regression result of CSR with FP (ROA, ROE)

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Ex. Sign</th>
<th>Beta</th>
<th>t-value</th>
<th>Beta</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>+</td>
<td>3.599</td>
<td>2.81***</td>
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<td></td>
</tr>
<tr>
<td>ROE</td>
<td>+</td>
<td>1.487</td>
<td>2.20**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>-0.162</td>
<td>1.150</td>
<td>6.93***</td>
<td>1.137</td>
<td>7.25***</td>
</tr>
<tr>
<td>lv</td>
<td>-1.65</td>
<td>2.550</td>
<td>4.05***</td>
<td>2.295</td>
<td>3.79***</td>
</tr>
<tr>
<td>age</td>
<td></td>
<td></td>
<td></td>
<td>-0.182</td>
<td>-1.93*</td>
</tr>
</tbody>
</table>

$R^2 = 0.3691$  
$p$-value = 0.000

$R^2 = 0.3565$  
$p$-value = 0.000

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

5.4 Hierarchical Multiple Linear Regression Results

Hierarchical regression was performed to examine the mediating effect of financial performance (table 6 and 7). According to Baron and Kenny (1986), the following conditions have to be met to determine the variable’s mediating functions: (a) the independent variable should make a significant contribution to the dependent variable in the absence of mediator variable; (b) the independent variable should make a significant contribution to the mediator variable; (c) the mediator variable should make a significant contribution to the dependent variable. Full mediation holds when the independent variable is no longer related to the dependent variable after the mediator is included and the beta coefficient of regression is reduced to non-significant level. Partial mediation holds when the beta coefficient of the independent variable value is still statistically significant after the inclusion of the mediator (Newsom, 2012).

The results of regression analysis of the impact of SSBE on CSR indicated that SSBE significantly affects CSR ($\beta = 2.612, p < 0.01$). Therefore, the first condition of mediation is met. The second equation was carried out to test the impact of the independent variables on the mediator variable. This result shown that SSBE has significant impact on ROA. Therefore, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediating variable on the dependent variable. The regression analysis result shows that ROA significantly affects CSR ($\beta = 3.599, p < 0.01$). This also suggests that the third criterion is met. In sum, the regression result reveals that the first, second and third conditions of mediation test are achieved, therefore, ROA does act as mediating variable in the relationship between (SSBE) and (CSR).

The results of regression analysis shows that HCE is not significantly in influencing CSR ($\beta = 0.0899, p > 0.10$). Therefore, the first condition of mediation was not met. The second equation is estimated to test the impact of the independent variables on the mediator variable as shown that HCE has no significant impact on ROA, thus, the second condition of mediation is not met. The third condition of mediation is to explain the impact of the mediating variable on the dependent variable. The regression analysis result shows that ROA significantly affects CSR ($\beta = 3.599, p < 0.01$). In sum, the regression result reveals that the first and second conditions are not achieved but the third conditions of mediation test are achieved, that is mean ROA does not act as mediating variable in the relationship between HCE and CSR.

The results of regression analysis shows that CEE significantly affects CSR ($\beta = 5.535, p < 0.01$). Therefore, the first condition of mediation is met. The second equation is estimated to test the impact of the independent variables on the mediator variable. It is found that CEE has significant impact on ROA, thus, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediating variable on the dependent variable. The regression analysis result shows that ROA ($\beta = 3.599, p < 0.01$) significantly affects CSR. This meets the third criterion as suggested by Baron and Kenny (1986) for mediation analysis. In sum, the regression result reveals that the first, second and third conditions are achieved, that is mean ROA does act as mediator in the relationship between CEE and CSR.
Results of regression analysis show that SCE significantly affects CSR ($\beta = 0.247$, $p < 0.01$). Therefore, the first condition of mediation is met. The second equation is estimated to test the impact of the independent variables on the mediator as shown that SCE has significant impact on ROA, thus, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediator on the dependent variable. The regression analysis result shows that ROA ($\beta = 3.599$, $p < 0.01$) significantly affects CSR. This meets the third criterion as suggested by Baron and Kenny (1986) for mediation analysis. In sum, the regression result reveals that the first, second and third conditions are achieved, that is mean ROA does act as mediator in the relationship between SCE and CSR.

### Table 6. Mediating effect of (ROA)

<table>
<thead>
<tr>
<th>Depend variable</th>
<th>Independ variable</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Type of effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSBE</td>
<td>R$^2$ 0.248***</td>
<td>Beta 2.612***</td>
<td>R$^2$ 0.5604</td>
<td>Beta 2.322**</td>
<td>P</td>
</tr>
<tr>
<td>CSR</td>
<td>HCE 0.4692</td>
<td>0.0033 0.0899</td>
<td>0.563 0.086</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>CEE</td>
<td>0.350**</td>
<td>5.535***</td>
<td>5.125***</td>
<td>P</td>
<td></td>
</tr>
<tr>
<td>SCE</td>
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<td>0.247***</td>
<td>0.262***</td>
<td>P</td>
<td></td>
</tr>
</tbody>
</table>

Mediator: ROA

**Step 1:** Refers to the regression of independent variable with mediating variable.

**Step 2:** Refers to the regression of independent variable with dependent variable.

**Step 3:** Refers to the regression of independent variable with dependent variable by mediator variable.

(P) Refers to partial mediating effect.

**Note:** * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Furthermore, R-Square increased from 0.5604 in step 2 to 0.5630 in step 3, while beta value for SSBE reduced from 2.612 in step 2 to 2.322 in step 3. This implies that ROA partially mediates the relationship between SSBE and CSR. The beta value of CEE decreases from 5.535 in step 2 to 5.125 in step 3. This also implies that ROA partially mediates the relationship between CEE and CSR. Consider the beta value of SCE. It increases from 0.247 in step 2 to 0.262 in step 3 and still significant. This means that ROA partially mediates the relationship between SCE and CSR.

To examine the mediating effect of financial performance (ROE), the regression analysis was carried out. Baron and Kenny’s (1986) conditions should be met to establish the mediating effect of financial performance (ROE) on the relationship between SSBE and Corporate Social Responsibility (CSR). The first regression equation is performed to test the impact of the independent variables on the dependent variable, results of regression analysis indicates that SSBE significantly affects CSR ($\beta = 2.612$, $p < 0.01$). Therefore, the first condition of mediation is met. The second equation is estimated to test the impact of the independent variables on the mediator variable found that SSBE has significant impact on ROE, thus, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediator variable on the dependent variable that ROE ($\beta = 1.487$, $p < 0.05$) significantly affects CSR. This meets the third criterion. In sum, the regression result reveals that the first, second and third conditions of mediation test are achieved. Therefore, thus, ROE does act as mediating variable in the relationship between SSBE and CSR.

To examine the mediating effect of financial performance (ROE), the regression analysis was carried out. Results of regression analysis shows that HCE does not significantly affect CSR ($\beta = 0.0899$, $p > 0.10$). Therefore, the first condition of mediation is not met. The second equation is estimated to test the impact of the independent variables on the mediating variable, it is found that HCE has no significant impact on ROE, thus, the second condition of mediation is not met. The third condition of mediation is to explain the impact of the mediator on the dependent variable. The regression analysis result ($\beta = 1.487$, $p < 0.05$) shows that ROE significantly affects CSR. This meets the third criterion. In sum, the regression result reveals that the first and second conditions were not achieved but the third conditions of mediation test is achieved. Therefore, ROE does not act as mediator in the relationship between HCE and CSR.
To examine the mediating effect of financial performance (ROE), the regression analysis was carried out. The first regression equation was performed to test the impact of the independent variables on the dependent variable. Results of regression analysis shows that CEE significantly influences CSR \((\beta = 5.535, p < 0.01)\). Therefore, the first condition of mediation is met. The results of second equation estimated to test the impact of the independent variables on the mediator. It is found that CEE has significant impact on ROE, thus, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediator on the dependent variable. The regression analysis result shows that ROE \((\beta = 1.487, p < 0.05)\) significantly influences CSR which meets the third criteria. In sum, the regression result reveals that the first, second and third conditions are achieved. Thus, ROE does act as a mediating variable in the relationship between CEE and CSR.

Results of regression analysis indicate that SCE significantly affects CSR \((\beta = 0.24, p < 0.01)\). Therefore, the first condition of mediation is met. The second equation is estimated to test the impact of the independent variables on the mediator and the result found that SCE has significant impact on ROE, thus, the second condition of mediation is met. The third condition of mediation is to explain the impact of the mediating variable on the dependent variable. The regression analysis result shows that ROE \((\beta = 1.487, p < 0.05)\) significantly affects CSR which implies that the third criterion. In sum, the regression result reveals that the first, second and third conditions are achieved. Thus, ROE does act as mediating variable in the relationship between SCE and CSR.

**Table 7. Mediating effect of (ROE)**

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variable</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Type of effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R²</td>
<td>Beta</td>
<td>R²</td>
<td>Beta</td>
<td>R²</td>
</tr>
<tr>
<td>SSBE</td>
<td>0.355**</td>
<td>2.612***</td>
<td>2.300**</td>
<td></td>
<td>P</td>
</tr>
<tr>
<td>CSR</td>
<td>0.3298</td>
<td>0.00388</td>
<td>0.5604</td>
<td>0.0899</td>
<td>0.5671</td>
</tr>
<tr>
<td>CEE</td>
<td>0.463*</td>
<td>5.535***</td>
<td>5.128***</td>
<td></td>
<td>P</td>
</tr>
<tr>
<td>SCE</td>
<td>-0.026*</td>
<td>0.240***</td>
<td>0.270***</td>
<td></td>
<td>P</td>
</tr>
</tbody>
</table>

Mediator: ROE

Step 1: Refers to the regression of independent variable with mediating variable.

Step 2: Refers to the regression of independent variable with dependent variable.

Step 3: Refers to the regression of independent variable with dependent variable by mediator variable.

(P) Refers to partial mediating effect.

Note: * p < 0.10, ** p < 0.05, *** p < 0.01

Furthermore, R-Square increased from 0.5604 in step 2 to 0.5671 in step 3, while beta value for SSBE decreases from 2.612 in step 2 to 2.300 in step 3. This implies that ROE partially mediates the relationship between SSBE and CSR. The beta value for CEE decreases from 5.535 in step 2 to 5.128 in step 3. This means that ROE partially mediates the relationship between CEE and CSR. The beta value for SCE is still significant and increases from 0.24 in step 2 to .270 in step 3. This means that ROE partial mediates the relationship between SCE and CSR.

**6. Discussion of Results**

The first objective of the current study is to determine the impact of Shariah Supervisory Board Effectiveness (SSBE), on Corporate Social Responsibility (CSR). The results, indicates the positive impact of Shariah Supervisory Board Effectiveness (SSBE) on Corporate Social Responsibility (CSR). This means that Shariah Supervisory Board Effectiveness (SSBE) affects the responsibility of Islamic banks in the Gulf Cooperation Council (GCC) to the community. It can intervene and stimulate banks to become more socially responsible towards the stakeholders in the community. Therefore, Islamic banks, as financial intermediaries are in a unique position in the society to encourage activities within it and among its clients and customers. This is because they are capable of directing funds from depositors and customers and allocating them to purposes that require them the most. This type of opportunity, that is, specialization in intermediation is confined to Islamic banks which enable it to open specific qardhasan accounts through which deposits are received and then be transferred to clients who are in need. For instance, the clients who need may be those who are not able to fulfil their bank
dues or newly married couples who are in no position to purchase household items or even students who do not have the means to get an education. These banks pay bonuses and benefits to their employees to ensure their consistent career in the bank. Also Islamic banks SSB directs banks toward establishing different types of waqf and they can play a key role in guiding revenues from waqf and in its distribution to specific charitable causes. As financial intermediaries, the SSB of these banks seeks to be in a suitable position to seek charitable fund within and from outside to its infrastructure. Islamic banks are capable of creating charity accounts and fund raising campaigns for charity with minimal financial outlay from their customers and clients. This will enable Islamic banks to use their present capacity to help deserving individuals in the society. Also, they offer advice to these banks to promote their capacity to sustain the policies and practices concerning energy and water conservation, environmental product responsibility, ecological and economic utilization of natural resources, environmentally friendly packaging, recycling, and use of recycled materials, waste reduction practices, and protection of natural resources.

With regard to the relationship between Human Capital Efficiency (HCE) and Corporate Social Responsibility (CSR), the findings showed that Human Capital Efficiency (HCE) does not influence Corporate Social Responsibility (CSR). It is indicated in the study that knowledge, skills and competence of human capital do not influence CSR. Thus, it shows that the skills and knowledge of human capital builds a competitive advantage for Islamic banking system and fail to impact social activities. In accordance with this, researchers (Malik, Malik, & Mustafa, 2011) draw a conclusion that one of the major issues in the Islamic banks is the deficiency of experts or Islamic finance professionals who possess the knowledge of financial transactions and Shariah as well. Skilled and expert human capital is one of the main components of intellectual capital that leads the operations of the bank towards accomplish the goals of Islamic banks in serving the community by fulfilling its social responsibility.

Regression analysis is used to study the relationship lies among Capital Employed Efficiency (CEE) and Corporate Social Responsibility (CSR). The findings explain that Capital Employed Efficiency (CEE) affects the Corporate Social Responsibility (CSR). Regression analysis further describes that the banks that are more efficient in applying its tangible assets (CEE) show a better (CSR). CEE depict the amount of value that is added in the physical and financial assets. Specially, the findings from regression illustrate that banks having the ability and efficiency to develop value from physical and financial assets, conduct greater CSR, This is consistent with the research by (Musibah, & Alfattani, 2013).

Regression analysis is adopted to evaluate the relation among Structure Capital Efficiency (SCE) and Corporate Social Responsibility (CSR). Results show that Structure Capital Efficiency (SCE) affects Corporate Social Responsibility (CSR). It explains that efficiency of structural capital is the knowledge that a bank keeps within at the end of a working day. It consists of the organizational routines, procedures, systems, cultures, databases, etc. It can be said that it boosts the activities provided by Islamic banks to its customers in GCC.

The results of the regression analysis done on the relationship between Shariah Supervisory Board Effectiveness (SSBE) and financial performance (ROA, ROE) indicate a positive impact. This means that Shariah Supervisory Board Effectiveness (SSBE) affects the Performance of Islamic banks in the Gulf Cooperation Council (GCC). The present study finds that the SSBE matter to bank performance to a particular extent. In terms of the educational attainment of SSB members, it is found that postgraduate degrees and religious grades have significant effects on profitability.

Also, the result indicates no relationship between Human Capital Efficiency (HCE), and financial performance (ROA, ROE) of Islamic banks in Gulf Cooperation Countries (GCC). This result concurs with the results obtained by Al-Shubiri (2011).The main reason behind this is that many banks are operating with minimal staff and relying on technology, and these banks also have few branches and believe in delivering specialized services. These banks depend on capital employee to generate profit. Thus, it is assumed that banks perceive IC, especially human capital to be very important a factor than physical capital (Latif, Malik, & Aslam, 2012).

As part of the study objectives, the relationship between Capital Employee Efficiency (CEE) and financial performance (ROA, ROE) is examined. Which states that Capital Employee Efficiency (CEE) has positive impact on financial performance (ROA, ROE). This means that these banks use the entire physical and material assets to create profitability (ROA and ROE). The findings of this study also support those obtained in the previous studies (e.g. Abdullah & Sofian, 2012; Ahmad, Sharabati, et al, 2013; Martin-de Castro & Delgado-Verde, 2012; Díez et al., 2010, Deep & Narwal, 2014). Results indicate negative relationship between Structure Capital Efficiency (SCE), and financial performance (ROA, ROE). This finding is in line with those obtained by Zeghal and Maaloul (2010). Structural capital
includes information systems, knowledge encoded in the form of databases, processes and organizational procedures trademarks, and patents. The result does not support the application of the bank strategies to maximize profitability because Islamic banks in the Gulf focus on the use of capital employee to create profitability as evidenced by the positive impact ($\beta = 0.350, p < 0.05$), ($\beta = 0.463, p < 0.10$) on financial performance (ROA and ROE). These banks spend large sums of money on human capital for training and rehabilitation depending on the specificity of their work. It also requires precise deals to avoid the mistakes of legitimacy, attempts to rehabilitate to be familiar and be expert in all types of financial transactions like conventional. It facilitates their keeping abreast with the changes in the world. The fact that many of the Islamic banks were established in recent years made them incur a large expense for the rehabilitation of human staff during the early years of incorporation. This result, indicating no direct impact on profitability may be because the benefits of training programs on the human element requires a long time. This however, depends on the privacy of dealing with financial issues and legitimacy that require precision and caution, as mentioned. The result ($\beta = 0.00330, p > 0.10$), ($\beta = 0.00388, p > 0.10$) indicates no relationship between human capital efficiency (HCE) and financial performance (ROA, ROE).

The result reveals that ROA, ROE has a strong significant and positive effect on corporate social responsibility. Banks acquire social legitimacy and maximize their financial strength in the long term through the implementation of CSR (Kiroyan, 2006). The activities of CSR is used to attract sympathy from societies by building a positive image that aims at increasing profits but Islamic banks are based on the goal of Islamic philosophy of providing service to the community according to the principles of Shariah.

This evidences that the determinants of company sustainability does not only depend on shareholders, but also depends on their stakeholders. In a research conducted by Abdul Hasyir, D (2003), it is argued that the companies’ high profits tend to display higher level of social responsibility while those with low profits display lower social responsibility (Eriana, Dud, & Novan, 2011). Our result is similar to those of other studies (i.e. Freeman 1984; Donaldson & Preston, 1995) who suggest that Corporate Social (CS) is positively associated with financial performance. In addition, Moskowitz (1972) finds a positive relationship between socially responsible business practices and financial performance.

One of the main objectives of this study is to examine the mediating effect of financial performance on the relationship between SSBE, IC and CSR. The results of this study indicate that SSBE influences the financial performance (ROA, ROE) and also has a significant effect on CSR. Moreover, CEE and SCE are found to have a significant impact on CSR, while HCE has no significant influence on CSR.

Based on these results, the conditions of mediation suggested by Baron and Kenny (1986) are not met. Therefore, financial performance (ROA, ROE) does not play a mediating role in the relationship between HCE and CSR in Islamic banks in GCC. The findings show reveal that the influence of SSBE plays a role to increase CSR. It is explained that better SSBs who possess the necessary knowledge and are expert in the areas of Islamic jurisprudence (Usul al-Fiqh), Islamic transaction/commercial law (Fiqh Al Muamalat), financial or accounting knowledge and possess an in-depth information on shariah produce higher financial performance and hence higher corporate social responsibility. As explained by Briston and El-Ashker (1986), SSBE plays a role as a control mechanism to monitor the Islamic banks activities and operations for the purpose of Shariah compliance including assuring zakah obligation - one of main activities that the Islamic banks provide to the society.

At this point, it is suggested that the Shariah board should set up accounting policies to assure that the formula used in allocating profit between shareholders and account holders is fair and that all revenues are generated from lawful transactions to ensure that zakah funds are properly calculated to influence the Islamic banks to perform their social responsibilities towards the benefits of the community and other stakeholders (Abdallah, 1994). A prominent Shariah advisor describes the functions of the Shariah board in Islamic banks to include assisting Islamic banks in the product precertification stage, such as product development and structuring, certifying products by means of fatwa, and ensuring Shariah compliance throughout the financial product’s life cycle (Delorenzo, 2007). These functions will maximize profitability and lead to increased social participation.

On the other hand, the insignificant mediating effect of financial performance (ROA, ROE) on the relationship between HCE and CSR may be explained by several probable reasons. Despite the good news for the Islamic finance sector that an increasing flow of this liquidity is finding a home in the Shariah-compliant financial services sector, this sharp growth has not been met with developing the required human capital base. That is why there is a huge turnover of staff at Islamic banks. Staff is still largely recruited from the conventional sector.

The more important problem is that the flow of the new generation of Islamic bankers with a proper training in Fiqh Al-Muamalat (Islamic law relating to financial transactions) is at best very limited. Universities in some
Muslim countries have neglected in general, courses and expertise in economics, accountancy, finance and banking, especially based on Islamic principles (Mushtak & Parker, 2007). These banks also lack expert and Islamic finance professionals who have the knowledge of both finance and religion (i.e. skilled and expert human capital) (Latif et al., 2012). This is one of the main components of intellectual capital that directs the bank operations towards achieving the goals of Islamic banks in their community service through social responsibility.

The result supports our prediction that impact of CEE on CSR through financial performance (ROA, ROE) is lesser than its direct impact. It appears from the results obtained that direct influence of CEE on CSR is greater than indirect impact of CEE on CSR through financial performance (ROA, ROE) as banks that are more efficient in utilizing its tangible assets (CEE) appear to have better CSR. CEE describes the amount of value that is added to the physical and financial assets. Regression results show that banks obtain capacity and efficiency to create value from physical and financial assets and this increases their amount of CSR. Owing to the short life of these banks, newness of incorporation (Nathan & Ribiére, 2007) and transformation of a number of conventional banks to Islamic banking, they use physical assets to create a good picture of themselves in the community through social responsibility towards a large number of customers, especially in the early years of their establishment.

The impact of SCE, financial performance (ROA, ROE) on CSR is significant and beta value is more than beta value estimated in step 2, indicating that financial performance (ROA, ROE) partially mediates the relationship between SCE and CSR. Furthermore, when we compare ($R^2 = 0.560$) in the step 2 with that of step 3, $R^2$ increases to ($R^2 = 0.563$), ($R^2 = 0.567$). This indicates the mediation effect of financial performance (ROA, ROE) on SCE and CSR. Improvement in $R^2$ is noted when mediator is added. This shows that the efficiency of structural capital (SCE) is the knowledge that stays within the bank at the end of the working day. It comprises the organizational routines, procedures, systems, cultures, databases, etc. Financial performance plays a role in enhancing the activities offered by Islamic banks to the community but banks focusing on the capacity and efficiency to create value from physical and financial assets carry out more CSR due to their short life and newness of incorporation. The transformation of a number of conventional banks to Islamic banking has led to the use of physical assets towards creating a good reputation in the community via good CSR. Based on the research results, this study contributes by providing several practical implications that may be of utmost importance to practitioners, particularly for management in Islamic banking industry in GCC.

7. Contributions of Study

The GCC countries on the whole display a mature, efficient, stable and profit wise better banking system. Mostly, in these countries, the banking sector ranks second in the top contributors to the countries’ GDP after the oil and gas sector (Al-Obaidan, 2008). Though, by adopting proper economic and financial policies for banking sector efficiency is the major aim of the GCC countries to make their current economy into global financial and trade centers (Al-Obaidan, 2008). As one of basic elements of IC as a resource in the success of banking (Kamath, 2007; Goh, 2005), GCC banks should utilize IC (internal and external) as by doing so, they would be well prepared to face the challenges come their way because of globalization, tough competition, hurdles for foreign bank entry and the customer needs and expectations of sophisticated and innovative products and services (Al-Obaidan, 2008).

Islamic banking system is an Islamic way of financing where people invest their capital and skill which are in line with the Islamic Shariah. Thus, sharing and transforming of knowledge is essential for Knowledge Management. Islamic banking not merely transfers true knowledge of Islamic modes of financing but is a way to boost customer perception and satisfaction. Shariah board practices may help in enhancing corporate social responsibility to show their compliance with Shariah (Baydoun & Willett, 1997). Regarding the findings of current study, the effectiveness of Shariah board education level has directly influence corporate social responsibility- this can be taken as an example of practical implication for Shariah board.

The foundation of Islamic Shariah board is based on the stakeholder oriented approach, whereas its governance style tries to protect the rights and interests of all stakeholders and raise the shareholders’ profit to a great extent. SSB follow to establish the Islamization of financial transactions. SSB is the scheme that leads and controls to guarantee Shariah compliance. The SSB comprises of Shariah advisers hired by the Islamic banks. The SSB is an independent body assigned the duty of directing, reviewing, and supervising the activities of the Islamic banks. Basically, SSB assure that Islamic banks are working in line with the rules defined by Shariah. Essentially, the SSB works with management to confirm if the financial product or service offered comply with the principles and rules given by Shariah. Moreover, confirmation of transparency in the Shariah process is done by SSB which also take care if the customers consider the product or service to be Shariah-compliant. This board is associated
with the internal governance structure of the institution and works as an internal control body in the organization. Though, this increase the credibility of the institutions in the eyes of its customers and shareholder, and reinforcing their Islamic credentials (Rammal, 2006). The SSB is important for two reasons. Firstly, the customers of Islamic bank want to confirm that their money matters comply with Islamic law. Secondly, the Islamic moral code will motivate Muslims to behave ethically. Human capital efficiency minimizes to corporate social responsibility as determined by this study as knowledge, skills and competence of human capital are found to have no direct and indirect impact on CSR.

Islamic banks do not have sufficient number of experts and Islamic finance professionals who have got the knowledge of both finance and religion i.e. skilled and expert human capital. Though, this is one of the major components of intellectual capital that directs the operations of the bank towards realizing the predetermined goals of Islamic banks in serving the community through social responsibility. Thus, managers can believe on allocating more resource towards employee training.

Current study tries to inspect the performance of HC resources to increase overall business efficiency by diverting scarce resources in the value creating direction and make awareness about IC and its role to maintain enough competitive advantage which results into profitability in a competitive environment in the WTO era of knowledge economy. By keeping in view the significant role of IC in financial performance, the banks could provide more community activities. In a global environment, if information related to IC, health, safety, environment and corporate social responsibility issues is high in the annual reports, the value of the bank may become better according to investors and stakeholders.

This literature also provides insights into various stakeholders, like scholars, shareholders, policy makers, institutional investigators and other related stakeholders. As identified before, one of the major issues these days is the lack of Islamic finance experts who possess the knowledge of finance and religion (i.e. human capital) on the same time, that is also one of the main components of intellectual capital. This research tries to determine the importance of human capital in increasing value creation and business efficiency.

As GCC is opening its stock markets for foreign investors, who always need financial and non-financial information to assist their investment decisions, this research offers proofs of the significance of reporting CEE and its efficiency in annual reports of Islamic banks. This will help in assessing the portfolio of existing and potential investors and, benchmarking within industry would also be possible. As the information regarding CEE efficiency are accessible, potential investors can easily estimate the risk related with their investment. Therefore, it is considered that human capital is more important factor than physical capital (CEE) for banks (Mavridis, 2004; Mavridis & Kyrizoglu, 2005; Latif et al., 2012). This is not unexpected because banking sector is a service sector where its customer services depends mainly on human capital. Alternatively, this study describes that structure capital efficiency such as organizational routines, procedures, systems, cultures, databases, etc have negative influence on corporate social responsibility in GCC Islamic banks. Though, that efficiency of structural capital as the knowledge that stays within the bank at the end of the working day plays a role in enhancing the activities offered by Islamic banks to the community and this negatively affect the performance.

Islamic Bank’s management and policy makers in GCC should pay more attention to intellectual capital which has been empirically proven to have no significant correlation with profitability. They should appreciate the theory of Prof. Pulic who claims that employee expenses should not be considered as real cost but a long term investment to maintain and enhance the human resources. They should concentrate on the investment in information technology, management information system, researches and development. Every bank should invest on employees by way of training them, providing them with latest technology and good working environment and assessing the return from that investment. They should publish the business value added and highlight the efficiency of their human and structural capital similar to the traditional financial measurements. Investors should not ignore the intellectual capital, which has been empirically confirmed to have an unstable relationship with profitability. They should request the relevant data from banks in order to investigate the efficiency of the intellectual capital in addition to their analysis via the traditional financial measurements. The investors’ decision should be based on the firm’s ability to add value to stakeholders, taking into consideration a combination of physical and intellectual resources efficiency.

The present findings also show that financial performance mediates SSBE, and CSR relationship, suggesting that the more effective the SSB is in Islamic banks, the greater will be the financial performance and social Activity level. High level of SSB educational characteristics is associated with increased profitability, which leads to increased corporate social responsibility. Moreover, management in Islamic banks planning for high performance practices will have to select shariah supervisory board members who possess high level of religious
and academic specialization to provide a high level of social activity and to achieve the most important goals of Islamic banks in the welfare of society.

Furthermore, management of Islamic banks should also pay more attention to capital employees and structure capital as it has a substantial impact on financial performance and CSR. However, this does not mean that the other components (human capital) of IC can be ignored. Therefore, in Islamic Banks, when designing IC, focus should be given to developing a more enriching and fulfilling human capital with high levels of training and choosing a well-qualified staff in Islamic financial transactions.

8. Limitation of the Study
Based on the results and discussion of this study, several limitations are identified.

First, the population in this study concentrates only on Islamic banks in GCC, characterized by running on full Islamic operation and overlooked those banks with Islamic windows. The limited population might restrict the generalization of research results to other industries. Second, while the GCC data provides richer understanding to this research, care should be taken in generalizing the results to other countries because of different regulations, practices, and economic factors. Third, this study utilizes the panel data approach, which is powerful in analyzing longitudinal data. However, it can be argued that common method variance may have influenced the results we found. Multiple sources of data collection are preferable to avoid the effect of common-method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Fourth, the study excluded Oman as one of the case countries in the GCC region because there were no Islamic banks in Oman until the first Islamic bank was opened on 10th of January 2013. Fifth, variables examined in this study are limited to SSBE, IC, financial performance and CSR. It could not possibly cover all potential aspects and prerequisites that might influence CSR. Hence, other situational factors beyond the scope of this study which affects CSR in Islamic banks should be given considerable attention. These factors include demographic factors, organizational structure, organizational culture, and other characteristics of SSB. These factors or predictors could also be of great value in explaining CSR in Islamic banks sector. Sixth, this study uses two measures for performance (ROA, ROE), while other measures of performance such as return on investment (ROI), return on sales (ROS), and return on debt (ROD) are overlooked. Finally, the scope of this study is limited to intellectual capital and Shariah board effectiveness of Islamic banks offering Islamic financial products and services in GCC countries for 5 years from 2007-2011.

9. Future Research Directions
To overcome the limitations of this study, several recommendations to future researches are provided based on research results and discussion.

First, the study sample could be extended to large population to provide evidence of generalizability. Future research should incorporate larger sample to include other Islamic service industries such as Islamic insurance companies, Islamic real estate firms. Different results might be obtained if the study focused on SSBE and IC in different industries that might have different work culture, management systems and polices, which affect performance and CSR. Second, given the limitation of generalizing the results to other countries, the findings and policy implications of this study can be extended to other economies having similar ownership characteristics. Third, instead of focusing on a single source to collecting the data, future studies should consider employing multiple sources to avoid the effect of common-method bias (Podsakoff et al., 2003). Fourth, the future studies can include Oman as one of the case countries in the GCC region, because of the presence of Islamic banks in the country from 2013, and this aspect can change the results of research in the future for the better. Fifth, the MAZHAB may play a significant role in the SSB culture. Since Islam has main four different MAZAAHIB (Hanafi, Hanbali, Maliki and Shafi’i), which interpret the (Quran) and Sunnah differently, future studies can take this into account. Sixth, the result found that HCE did not influence performance and CSR indicating that future research can explain the inability of HCE to affect performance and CSR in certain contexts. Finally, this study investigates the mediating effect of financial performance in the relationship between HCE and CSR and fails to provide empirical evidence in support of this. Since not many researches have investigated the mediating role of financial performance, this study offers some empirical insight into this issue and future research are recommended to consider other mediating variables to explain CSR.

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