

**Behavioral Theory and Corporate Social Responsibility in Islamic
Finance: Exploring the Relationship Between Ethical Obligations
and Disclosure Practices**

النظرية السلوكية والمسؤولية الاجتماعية للشركات في التمويل الإسلامي: دراسة العلاقة بين
الالتزامات الأخلاقية وممارسات الإفصاح

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Abstract

The study explores the efficacy of the Behavioral Theory regarding Corporate Social Responsibility in the context of Islamic finance and, more specifically, how the predisposed ethical imperatives within Shari'ah principles influence CSR behavior and disclosure practices within IFIs. To this end, but from an analytical viewpoint, it sought to review related literature materials on the theoretical and practical dimensions of CSR in Islamic finance, as a variant to conventional finance, guided by a religious and ethical imperative. The most vital information derived is that, in the case of Islamic finance, CSR appears to be highly coalesced with Islamic ethical values, anchoring its operations on social welfare, fair distribution of wealth, and transparent governance, strongly pressed by Shari'ah supervisory structures. It highlights that ESG criteria go in hand with Islamic principles, too, and discusses some obstacles and potential along the path of standardizing CSR frameworks in Islamic finance towards sustainable business.

Keywords : Corporate Social Responsibility (CSR), Islamic Finance, Behavioral Theory, Shari'ah Principles, Ethical Disclosure, ESG Criteria, Governance, and Social Welfare..

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1. Introduction

CSR has now emerged as an essential approach to corporate governance, which is increasingly influencing the strategic direction of financial institutions. Although philanthropy at one time was its centerpiece, it gradually evolved to cover other more general practices that were concerned with ethical, social, and environmental performance of business. In the context of the financial industry, CSR represents the commitment of institutions to conduct operations in such a way that, beyond minimum legal requirements, promotes social welfare and ethical conduct as well. The use of CSR practices in the financial industry seeks to counterbalance the profit-making motivation with worthwhile contributions to society for sustainable economic development in an ethical way. Aribi & Arun, 2015; Mallin, Farag, & Ow-Yong, 2014. From this perspective, CSR is particularly emphasized within Islamic finance, as the principles of Islam naturally preach social justice, equitability, and economic equity.

In recent times, attention has been growing in the banking industry towards the criteria of Environmental, Social, and Governance aspects. ESG is becoming the critical framework about assessing sustainability and ethical impacts of financial operations that align with CSR values. There is indeed a natural convergence between ESG and Islamic finances, for the simple reason that both tenets share an emphasis on ethical conduct, transparency, and welfare of the people. While ESG focuses on the long-term value creation through sustainable performance, Islamic finance enforces such principles via its adherence to Shari'ah, with an emphasis on the prohibition of interest, uncertainty, and unethical investments. Accordingly, both frameworks seek to encourage three responsible investments in society and fairness regarding the treatment of stakeholders. But the introduction of ESG principles within Islamic Finance carries peculiar challenges and opportunities due to the particular religious and ethical factors underpinning Shari'ah-compliant finance activities.

Several studies have discussed the ethos underlying CSR in Islamic finance institutions with respect to how CSR is conceptually and practically included in the financial operations of those organizations.

Aribi and Arun (2015) examined the perceptions of CSR in IFIs and established that IFIs perceive CSR as a means of working towards welfare

in society for the common good through Islamic teachings. Haniffa and Hudaib (2007) examined the practice of CSR disclosure by Islamic banks and established that such disclosure is shaped by principles of Shari'ah characterized by overwhelming dominance of transparency and ethical behavior. Similarly, there was a study by Platonova et al. (2018) on the effect of CSR disclosure on financial performance in Islamic banks; evidence showed that ethical practices correlate positively with profitability. Such findings form the cornerstone for an Islamic-oriented treatment of CSR, handling individualized specific linkages between ethical imperatives, governance patterns, and financial consequences in IFIs. Therefore, the present study aims to add to the increasing literature by providing a systematic review of the literature on behavioral theory and CSR practices in Islamic finance, with a special focus on the nexus of ethical imperatives and disclosure practices. Based on synthesizing existing research, the study seeks to demystify how CSR is theoretically understood and practically applied in the context of Islamic finance. It also explores how the governance structure, such as that of Shari'ah supervisory boards and corporate mechanisms, influences CSR behavior and disclosure. The literature review shall therefore prove a useful source for researchers interested in grasping the ethical bounds of CSR in Islamic finance by showing how Islamic fundamentals configure financial practices and wider social consequences. In the end, this research will further establish grounds for a more effective and comprehensive understanding of CSR in IFIs and offer new research on ethical finance and sustainable business. From the above, the following main question can be raised: **How do ethical obligations rooted in Islamic principles influence CSR practices and disclosure behaviors in Islamic Financial Institutions (IFIs), and what theoretical frameworks best explain this relationship?**

2. Literature Review

This section explores the foundational theories and principles of Corporate Social Responsibility (CSR) as they apply to Islamic finance, examining how ethical obligations and Shari'ah principles shape CSR practices and disclosure behaviors in Islamic Financial Institutions (IFIs).

2.1 Overview of the Concepts of Corporate Social Responsibility in Islamic Finance

This section provides an overview of corporate social responsibility in the context of Islamic finance, focusing on its unique alignment with Islamic ethical values, social justice, and the broader objectives of Shari'ah in promoting the common good and equitable distribution of wealth.

2.1.1 Corporate Social Responsibility (CSR) in the financial sector is the consideration of ethical implications in business decisions and their impact on society. In Islamic finance, CSR is rooted deeply in moral and ethical frameworks that reflect Islamic principles, including social justice and equitable welfare. CSR is more than compliance; it represents a moral obligation to contribute positively to society and aligns with Islamic values (Aribi & Arun, 2014).

2.1.2 Definition and Scope of Corporate Social Responsibility (CSR)

CSR is defined as a corporation's commitment to societal goals, which include ethical practices in business, environmental considerations, and responsible stakeholder treatment (Aribi & Arun, 2014). In the context of Islamic finance, CSR aligns closely with **Shari'ah principles**, emphasizing social justice, equity, and communal welfare (Dusuki, 2007). Therefore, CSR in Islamic finance is characterized by the moral and religious duty to adhere to these principles.

2.1.3 Theories Underpinning CSR in Finance

Several theories underpin the CSR framework within Islamic finance:

- **Stakeholder Theory:** Stakeholder theory suggests that businesses are accountable not only to shareholders but to all parties impacted by their operations (Dusuki, 2007). Islamic finance extends this stakeholder-centric approach through the concept of **maslahah** (public interest), requiring financial activities to promote social welfare and equitable wealth distribution. It reflects an inclusive approach, covering the needs of employees, customers, suppliers, and society.
- **Legitimacy Theory:** According to legitimacy theory, businesses must act in accordance with societal norms and values to maintain their legitimacy (Farook, 2007). In Islamic finance, legitimacy is achieved by adhering to **Shari'ah** guidelines, which require transparency, accountability, and socially responsible practices (Haniffa & Hudaib, 2007). Compliance with Islamic law not only affirms the ethical integrity of financial institutions but also solidifies their standing within their communities.

- **Ethical Theories in Finance:** Islamic finance is based on ethical theories that are consistent with **Shari'ah** principles, emphasizing fairness, transparency, and ethical conduct (Harun et al., 2020). Prohibitions against **riba** (interest), **gharar** (excessive uncertainty), and **maysir** (gambling) provide the ethical basis for CSR practices. Consequently, CSR activities in Islamic finance involve promoting social welfare, supporting charitable initiatives like **zakat** (obligatory almsgiving), and ensuring business activities align with Islamic ethical standards.

2.1.3 Corporate Social Responsibility in Practice within Islamic Financial Institutions (IFIs)

CSR in Islamic financial institutions (IFIs) is comprehensive, integrating social, environmental, and ethical considerations into everyday business operations (Aribi & Arun, 2014). **Shari'ah supervisory boards** play a crucial role in ensuring compliance with Islamic ethical guidelines. CSR reporting in these institutions often includes social contributions, charitable activities, and transparent disclosure practices (Haniffa & Hudaib, 2007).

Research on CSR disclosure practices reveals that factors such as **board size**, corporate governance, and the presence of a **Shari'ah board** influence CSR reporting in Islamic finance (Harun et al., 2020). Such disclosures aim to enhance transparency and accountability, aligning with the overarching goal of achieving social justice and welfare as outlined by the **maqasid al-Shari'ah** (objectives of Islamic law).

2.2 Principles of Islamic Finance and Corporate Social Responsibility

The principles of Islamic finance, derived from **Shari'ah**, shape the ethical obligations and financial practices of Islamic financial institutions (IFIs). These principles naturally align with CSR values as both frameworks emphasize ethical behavior, social justice, and societal well-being.

2.2.1 Shari'ah Compliance

The foundation of Islamic finance is adherence to **Shari'ah law**, emphasizing business practices that promote social justice, transparency, and fairness (Aribi & Arun, 2014). Prohibitions against **riba**, **gharar**, and **maysir** ensure that Islamic financial products are ethical, promote risk-

sharing, and avoid exploitative contracts (Farook, 2007). The ethical principles of fairness and transparency inherent in Shari'ah compliance align closely with the core tenets of CSR, which seek to uphold business practices that positively impact society.

2.2.2 Zakat (Charitable Giving)

Zakat, one of the five pillars of Islam, requires individuals and businesses to allocate a portion of their wealth to those in need. It is a tool for wealth redistribution and social welfare, aiming to reduce poverty and inequality (Dusuki, 2007). The principle of **zakat** directly supports the CSR agenda, mandating contributions to social development and societal responsibility. IFIs are expected to facilitate **zakat** payments and transparently report these charitable activities (Haniffa & Hudaib, 2007).

2.2.3 Maslaha (Public Interest)

Maslaha refers to the pursuit of public good and social welfare, guiding business decisions to benefit society and avoid harm. This principle aligns closely with CSR objectives as both aim for positive social and environmental outcomes through ethical business practices (Aribi & Arun, 2014). **Maslaha** encourages IFIs to participate in activities that promote social justice, equitable wealth distribution, and sustainable development, enhancing their roles as socially responsible entities.

2.2.4 Promoting Justice, Risk Sharing, and Ethical Business Practices

Islamic finance promotes **justice (adl)** by ensuring equitable treatment in financial transactions. Risk-sharing, which is an alternative to interest-based lending, is a core aspect of this framework (Farook, 2007). Islamic financial instruments, such as **mudarabah** (profit-sharing) and **musharakah** (joint ventures), are structured to share risks and rewards fairly among stakeholders, embodying ethical business conduct. This ethos aligns closely with CSR goals, which advocate for fairness, ethical treatment of stakeholders, and sustainable development.

2.3 Theoretical Frameworks in Islamic CSR

Islamic CSR is grounded in the ethical and moral principles of Islamic teachings and Shari'ah law. Theoretical frameworks for Islamic CSR are

based on the **objectives of Shari'ah (Maqasid al-Shariah)**, which aim to align IFI operations with social welfare, justice, and ethical conduct (Platonova et al., 2018).

2.3.1 Maqasid al-Shariah and CSR Practices

Maqasid al-Shariah refers to the overarching goals of Islamic law, focusing on the protection and promotion of five essential components: **faith (deen)**, **life (nafs)**, **intellect (aql)**, **progeny (nasl)**, and **wealth (maal)**. These components establish a holistic framework that emphasizes ethical behavior, social welfare, and justice in business (Dusuki, 2007). Islamic financial institutions are guided by these principles to implement CSR that goes beyond financial transactions, integrating social and moral obligations (Platonova et al., 2018).

The **maqasid al-Shariah** encourages IFIs to promote social justice through activities such as **zakat** and **qard hasan** (benevolent loans), which aim to reduce poverty and enhance social welfare (Haniffa & Hudaib, 2007).

2.3.2 The Principle of Tawhid and Unity in CSR

The principle of **tawhid** (unity of God) underscores the interconnectedness of all life aspects, including business ethics and conduct. **Tawhid** requires that all actions align with Islamic teachings and reflect accountability to both God and society. This principle motivates IFIs to ensure transparency, fairness, and social responsibility in operations, emphasizing that CSR is not solely for compliance but for the overall societal benefit (Gunardi et al., 2021).

2.3.3 The Role of Maslahah in Islamic CSR

Maslahah prioritizes social welfare and community well-being. IFIs are required to balance profitability with ethical obligations, ensuring that business activities have positive social and environmental outcomes (Dusuki, 2007). By focusing on collective benefit, **maslahah** drives IFIs to engage in CSR activities that promote social justice, economic development, and sustainable business practices.

2.3.4 Adl (Justice) and Ihsan (Benevolence) in CSR

Adl (justice) and **ihsan (benevolence)** are fundamental to the CSR framework in Islamic finance. **Adl** promotes fairness and equity, while **ihsan** encourages charitable actions beyond legal requirements. These principles motivate IFIs to implement equitable, transparent CSR activities that are beneficial to all stakeholders, fostering an ethical environment in alignment with Islamic values (Farook, 2007).

2.3.5 Empirical Research on Islamic CSR Frameworks

Research shows an increasing adoption of Islamic CSR frameworks by IFIs. Haniffa and Hudaib (2007) note variations in how CSR principles are communicated and implemented in annual reports. Platonova et al. (2018) found a positive correlation between CSR disclosure and financial performance in IFIs, suggesting that adherence to Islamic ethical principles can enhance reputation and financial sustainability.

2.4 Ethical Identity and CSR Disclosure in Islamic Finance

Studies on the ethical identity of Islamic banks indicate their efforts to align business practices with Shari'ah, aiming to uphold Islamic principles. However, research by Haniffa and Hudaib (2007) identifies a mismatch between the ideal ethical identity and what is disclosed, attributed to differences in how Islamic principles are interpreted and implemented across regions and institutions.

2.4.1 CSR Disclosure in Islamic Finance

- **AAOIFI Governance Standard No. 7:** The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) provides standards for CSR disclosures to ensure a consistent approach for IFIs (Mallin et al., 2014). This governance standard includes both mandatory and recommended disclosures covering religious, ethical, and social responsibilities, such as **zakat distribution**, **qard hasan**, and environmental duties.

Implementation of AAOIFI standards varies across jurisdictions, resulting in differences in CSR disclosure among Islamic banks (Ineizeh et al., 2022). Despite this, AAOIFI Standard No. 7 plays a pivotal role in shaping CSR reporting.

- **Islamic Social Reporting (ISR) Framework:** ISR extends beyond financial performance, emphasizing transparency in social and ethical reporting for IFIs (Gunardi et al., 2021; Budi, 2021). The framework mandates disclosure of contributions to social welfare, ethical business practices, and alignment with **Shari'ah**. The ISR encourages IFIs to showcase their social impact comprehensively, differentiating it from conventional CSR frameworks.
- **Challenges in Standardizing CSR Disclosure:** A universally accepted standard for Islamic CSR disclosure is absent, leading to inconsistencies in reporting due to varied interpretations of Shari'ah and governance structures. These challenges highlight the need for harmonized CSR practices to ensure greater accountability in Islamic finance (Gunardi et al., 2021).

2.5 Differences in CSR Disclosure between IFIs and Conventional Financial Institutions

CSR disclosure in IFIs is distinct from conventional financial institutions in terms of transparency, ethical reporting, and stakeholder inclusiveness. The principles of Shari'ah underpin these differences:

2.5.1 Transparency: IFIs maintain Shari'ah-compliant transparency, ensuring that business operations align with Islamic teachings (Mallin et al., 2014). CSR disclosure includes the bank's religious and ethical values, contributing to more comprehensive transparency than conventional banks (Aracil, 2019).

2.5.2 Ethical Reporting: For IFIs, ethical reporting is a religious duty. CSR disclosures often highlight the alignment with Islamic ethics, including avoidance of **riba** and engagement in socially responsible activities like **zakat** contributions (Zaman et al., 2018). This type of reporting, which integrates CSR within the vision and mission of IFIs, is often absent in conventional banks (Platonova et al., 2018).

2.5.3 Stakeholder Inclusiveness: IFIs consider a wider range of stakeholders, aiming to balance financial performance with social justice and equitable wealth distribution (Alamer et al., 2015). By contrast, conventional financial institutions prioritize shareholder interests and financial returns. The CSR practices in IFIs reflect the principles of Islamic

social justice and communal welfare, as seen in their disclosures (Aracil, 2019).

2.5.4 Comparison with Conventional Financial Institutions:

Conventional financial institutions incorporate CSR as part of sustainability and governance strategies, focusing on economic, environmental, and social factors without a religious framework (Gunardi et al., 2021). Their CSR reporting is often driven by profit and used to enhance corporate image and shareholder value, unlike the faith-based CSR activities in IFIs.

2.6 Empirical Findings on CSR Disclosure Levels in Islamic Banks and Challenges in Aligning Ethical Obligations with Reporting Practices

Empirical research reveals that CSR disclosure levels in Islamic banks are increasing but vary across regions and institutions. Key findings and challenges include:

2.6.1 CSR Disclosure Levels in Islamic Banks

A study by Ineizeh et al. (2022) showed that Islamic banks in the **Gulf Cooperation Council (GCC)** region achieved moderate CSR disclosure rates, with an average of 55%. Banks in Bahrain exhibited the highest levels of disclosure, while those in Saudi Arabia scored the lowest. However, CSR reporting content is often not comprehensive, with certain areas like **zakat** and charity less reported compared to others like debt commitment.

Mallin, Farag, and Ow-Yong (2014) analyzed CSR practices across 90 Islamic banks in 13 countries, finding that while Islamic banks engage in CSR, they emphasize their vision, mission, and products over social and environmental dimensions. There is also a positive correlation between CSR disclosure and financial performance, suggesting that better disclosure aligns with financial outcomes. Nevertheless, the extent of reporting often falls short of Islamic social and ethical principles.

Aracil (2019) compared Islamic and conventional banks, noting that Islamic banks demonstrate implicit CSR commitments guided by religious values rather than formal strategies. This results in a philanthropy-focused CSR orientation in Islamic banks as opposed to the business-driven CSR strategies of conventional banks.

2.6.2 Challenges in Aligning Ethical Obligations with Reporting Practices

Islamic banks face challenges in aligning their ethical obligations with CSR reporting:

- **Lack of Standardization:** Unlike conventional banks that use established guidelines like the **Global Reporting Initiative (GRI)**, Islamic banks have varying guidelines that may not cover the full range of CSR activities or Islamic ethical principles (Platonova et al., 2018). This leads to inconsistencies in CSR information disclosure, complicating stakeholder evaluation.
- **Integration with Islamic Principles:** Translating Islamic principles into measurable CSR practices is complex (Mallin et al., 2014). Shari'ah Supervisory Boards (SSBs), which oversee compliance, may vary in their roles and recommendations across banks and regions (Gunardi et al., 2021).
- **Balancing Ethics and Financial Performance:** The need to demonstrate profitability may sometimes conflict with comprehensive ethical disclosure. Islamic banks face pressure to meet financial targets, leading to trade-offs between financial reporting and CSR (Aracil, 2019).

3. Theoretical Framework and Discussion

3.1 CSR Behavior in Islamic Finance

The behavior of Corporate Social Responsibility (CSR) in Islamic Financial Institutions (IFIs) is distinctly shaped by Islamic ethical values and principles that emphasize social welfare, justice, and community development. This framework is rooted in Shariah principles, which serve as the moral and operational guide for Islamic finance, making CSR both a religious and moral duty (Dusuki & Abdullah, 2007). Unlike conventional financial institutions where CSR might be seen as an additional or voluntary practice, for IFIs, CSR is ingrained in the very nature of their business operations (Farook, 2007).

The key motivations for CSR behavior in IFIs are found in the Islamic concepts of social justice and equitable distribution, where financial transactions are governed by principles prohibiting *riba* (interest) and *gharar* (excessive uncertainty) to ensure fair and just wealth distribution (Mallin et al., 2014). This is operationalized through practices such as *Zakat*

(mandatory almsgiving), *Sadaqah* (voluntary charity), and equitable risk and reward sharing, which collectively promote the well-being of the community and align with the objectives of Islamic finance (Ineizeh et al., 2022).

- **Intersection of ESG Criteria and Islamic Finance Principles :**The Environmental, Social, and Governance (ESG) criteria have become increasingly significant in global finance, and they intersect closely with Islamic finance principles. Both frameworks emphasize ethical investing, social justice, and sustainability. For example, the social aspect of ESG aligns with the Islamic emphasis on social responsibility and equitable stakeholder treatment. Additionally, the environmental responsibility in ESG resonates with the Islamic advocacy for environmentally conscious investing (Gunardi et al., 2021).

However, the practical application of ESG principles in IFIs presents a challenge, as the principles of Islamic finance are not yet fully integrated with conventional ESG criteria. Although frameworks such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) provide guidelines for Shariah-compliant reporting, there is no universally accepted standard that encapsulates both ESG and Islamic finance principles comprehensively (Platonova et al., 2018). This gap results in varied CSR practices among IFIs and highlights the need for a more unified approach to CSR that aligns with both Islamic and global sustainability standards.

- **Challenges in Implementing Robust CSR Practices:** While the ethical foundation for CSR in IFIs is clearly established, implementing robust CSR practices presents several challenges. A major issue is the lack of uniformity in CSR reporting standards, which leads to inconsistencies in disclosure across different regions and Islamic banks (Aracil, 2019). Unlike conventional financial institutions that may follow established ESG frameworks, IFIs face the dual challenge of aligning their CSR practices with Islamic ethical principles and global sustainability requirements.

Furthermore, there is often a divergence between the theoretical principles of Islamic finance and their practical application. While the principles emphasize social welfare and justice, market competition, financial performance pressures, and the need to meet stakeholder expectations can lead IFIs to adopt more profit-driven approaches that may compromise

comprehensive CSR practices (Zaman et al., 2018). Additionally, the role of Shariah Supervisory Boards (SSBs) varies across institutions, influencing how CSR practices are interpreted and implemented. This variability can affect the robustness and consistency of CSR behavior within Islamic finance (Gunardi et al., 2021).

In summary, the motivations for CSR behavior in IFIs are grounded in Islamic ethical values such as social welfare, justice, and community development. While there are similarities between ESG criteria and Islamic finance principles, implementing robust CSR practices in IFIs is challenged by inconsistencies in reporting standards, divergence between theory and practice, and variability in Shariah oversight.

3.2 CSR Disclosure Theories and Standards

CSR disclosure in Islamic financial institutions is driven by principles of transparency, accountability, and ethical obligations. The guiding motivation for these disclosures is to align financial activities with Islamic ethical principles, emphasizing the institution's responsibility towards social welfare and moral conduct. This approach contrasts with conventional financial institutions, where CSR disclosure is often driven by enhancing corporate image and voluntary stakeholder engagement (Dusuki & Abdullah, 2007; Mallin et al., 2014).

Transparency and accountability are critical in the ethical framework of Islamic finance. Farook (2007) emphasizes that concepts such as *shura* (consultation) and *amanah* (trustworthiness) are central to the motivation behind CSR disclosures. These principles ensure openness in business dealings and that financial transactions adhere to Shariah-compliant standards, avoiding unethical practices like *riba* (interest) and *gharar* (excessive uncertainty).

- **Existing Disclosure Standards in Islamic Finance: AAOIFI:** The AAOIFI plays a pivotal role in shaping CSR disclosure practices in the Islamic finance sector. Its standards are tailored to align financial reporting and ethical obligations with Shariah principles. One key AAOIFI standard is Governance Standard No. 7 (GSIFI 7), which outlines the framework for CSR reporting within Islamic financial institutions, covering social, economic, and environmental responsibilities (Platonova et al., 2018). These standards guide IFIs in activities like *Zakat* distribution, *Qard al-Hasan*

(benevolent loans), and ethical product offerings, which distinguish Islamic CSR from conventional CSR.

Despite the comprehensive nature of AAOIFI standards, their adoption across Islamic markets is inconsistent, leading to variability in CSR disclosure practices (Ineizeh et al., 2022). This lack of universality limits comparability and the effectiveness of CSR reporting in achieving the desired social and ethical impacts in line with Islamic values.

3.3 Theoretical Models of CSR in IFIs

Theoretical models provide a structured way to understand CSR behavior and disclosure practices in IFIs. One such model is the stakeholder theory adapted to Islamic principles. This approach expands on conventional stakeholder theory by including Shariah as a key stakeholder and aligning business practices with the objectives of *Maqasid al-Shariah*, which aim to achieve social justice, welfare, and ethical behavior (Dusuki & Abdullah, 2007). In this context, stakeholders encompass not only investors, customers, and employees but also society and spiritual needs, thereby promoting a holistic view of CSR in IFIs.

Aribi and Arun (2015) argue that Islamic banks disclose CSR activities to reflect their commitment to the Islamic ethical system, which balances individual rights and community welfare. This stakeholder model extends the organization's responsibility beyond profit-making to social and environmental impact, aligning with Islamic teachings.

- **Maqasid-based CSR Models:** The Maqasid-based CSR model integrates CSR behavior and disclosure practices within the broader objectives of Islamic law. It emphasizes achieving societal welfare, ethical business conduct, and equitable wealth distribution in line with the goals of *Maqasid al-Shariah*. This approach focuses on protecting key aspects such as faith, life, intellect, lineage, and wealth (Dusuki & Abdullah, 2007).

The advantage of the Maqasid-based model lies in its comprehensive framework that encompasses both material and spiritual welfare, providing IFIs with a holistic approach to CSR that aligns with Shariah principles and contributes to societal development (Platonova et al., 2018). However, its implementation faces challenges in balancing financial and social objectives and achieving consistency in disclosure practices.

3.4 Empirical Studies on Ethical Identity Index and CSR Performance in Islamic Banks

Empirical studies have sought to measure the ethical identity and CSR performance of Islamic banks. Haniffa and Hudaib (2007) developed an Ethical Identity Index (EII) to assess the reflection of ethical identity in annual reports, finding that there are discrepancies between communicated and ideal ethical identities. Maali et al. (2006) similarly analyzed CSR disclosures and noted inconsistencies in reporting, suggesting a need for more transparent and comprehensive CSR practices aligned with Islamic values.

More recent research by Platonova et al. (2018) evaluated the CSR performance of Islamic banks in the GCC region, revealing a positive relationship between ethical identity and financial performance. However, the study found significant variation in the extent and quality of CSR disclosures, indicating opportunities for standardization and improvement in practices.

3.5 Challenges and Opportunities in Aligning CSR with Islamic Finance Principles

- **Theoretical Challenges:** One of the central challenges in aligning CSR with Islamic finance principles is balancing profitability, social justice, and ethical obligations. Islamic banks operate under Shariah law, which requires them to achieve the objectives of *Maqasid al-Shariah* while maintaining financial viability (Dusuki & Abdullah, 2007). This dual focus often creates a tension between meeting financial goals and fulfilling social and ethical responsibilities.

Additionally, the lack of standardized CSR disclosures in Islamic banks hinders the comparability of CSR performance across different regions and institutions (Mallin et al., 2014). Although frameworks like AAOIFI provide some guidance, the absence of a universally adopted standard creates inconsistencies and poses a challenge for stakeholders seeking to evaluate the social and ethical impact of Islamic banks.

- **Opportunities for Standardization and Social Impact:** Despite these challenges, opportunities exist for enhancing CSR in Islamic finance. Standardization of CSR disclosures across Islamic banks can improve

transparency and accountability, helping stakeholders better understand the ethical identity and social impact of these institutions (Ineizeh et al., 2022). Furthermore, the focus on social justice and equitable wealth distribution provides Islamic banks with an opportunity to lead in the development of innovative social finance products, such as *Qard al-Hasan* and microfinance.

Incorporating Islamic ethical principles into CSR practices also offers a unique framework that integrates financial, social, and spiritual aspects, promoting sustainable economic growth and contributing to societal well-being (Aracil, 2019)

4. Result And Discussion

The findings of the study give an overview of the main trends in research that shape the discourse on CSR and behavioral theory within the context of Islamic finance. Recent research trends in the intersection of Behavioral Theory, Corporate Social Responsibility (CSR), and Islamic Finance have underlined the soaring importance of ethical considerations and social responsibilities within IFIs. These emergent trends thereby reflect a multifaceted approach toward CSR in Islamic finance, emanating from Shari'ah precepts and informed by imperatives related to social welfare, justice, and communal development. The inculcation of such ethical imperatives distinguishes the pattern of CSR in Islamic finance not only from the conventional practice but also underlines the moral responsibilities coupled with financial practices and disclosure behaviors.

Table 1: Research Trends in Behavioral Theory, Social Responsibility, and Islamic Finance

No.	Research Direction	Content	Example Studies
1	Motivations for CSR in Islamic Finance	The motivations for CSR behavior in IFIs, focusing on social welfare, justice, and community development as rooted in Islamic ethical values. Emphasis on Shariah principles, such as prohibition of <i>riba</i> and <i>gharar</i> , and practices like <i>Zakat</i> and <i>Sadaqah</i> .	Dusuki & Abdullah (2007); Farook (2007); Mallin et al. (2014)
2	Intersection of ESG and Islamic Finance	The connection between ESG criteria and Islamic finance principles, addressing ethical investing, social justice, and environmentally responsible finance. Discussing the challenges in applying ESG criteria in IFIs.	Gunardi et al. (2021); Platonova et al. (2018)

3	Challenges in CSR Implementation for IFIs	Lack of uniformity in CSR reporting standards, practical challenges in applying Islamic finance principles, and the role of Shariah Supervisory Boards (SSBs) in varying interpretations of CSR practices.	Aracil (2019); Zaman et al. (2018); Gunardi et al. (2021)
4	Guiding Principles and Motivations for CSR Disclosure	The principles of transparency, accountability, and ethical obligations guiding CSR disclosure in IFIs, aligning with Islamic ethical standards and enhancing stakeholder trust.	Dusuki & Abdullah (2007); Farook (2007); Mallin et al. (2014)
5	AAOIFI Standards for CSR Disclosure	The role of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in shaping CSR reporting in IFIs, including standards like GSIFI 7 for CSR activities.	Aribi & Gao (2012); Platonova et al. (2018); Ineizeh et al. (2022)
6	Stakeholder Models Adapted to Islamic Principles	Application of stakeholder theory in an Islamic context, expanding stakeholders to include societal and spiritual needs, aligning business practices with Maqasid al-Shariah.	Dusuki & Abdullah (2007); Aribi & Arun (2015)
7	Maqasid-based CSR Models	Frameworks that integrate CSR behavior and disclosure with the goals of Maqasid al-Shariah, focusing on societal welfare, ethical business, and wealth distribution.	Dusuki & Abdullah (2007); Platonova et al. (2018)
8	Empirical Studies on Ethical Identity and CSR Performance	Studies that evaluate the Ethical Identity Index (EII) of Islamic banks and analyze their CSR performance in line with Islamic values.	Haniffa & Hudaib (2007); Maali et al. (2006); Platonova et al. (2018)
9	Challenges in Aligning CSR with Islamic Principles	Theoretical challenges in balancing profitability, social justice, and ethical obligations in Islamic finance, and difficulties in standardizing CSR disclosures.	Dusuki & Abdullah (2007); Mallin et al. (2014)
10	Opportunities for Standardization and Social Impact	Opportunities to enhance CSR practices in IFIs through standardization of disclosure, development of social finance products, and promoting Islamic ethical principles.	Ineizeh et al. (2022); Aracil (2019)

Based on the studies outlined in the table, the evolving research trends for behavioral theory, social responsibility (CSR), and Islamic finance reveal a multifaceted and interdisciplinary approach. Here are the key trends identified from the classified studies:

A. Holistic Integration of CSR and Islamic Ethical Values

A dominant research trend is the holistic integration of CSR within the ethical framework of Islamic finance. Unlike conventional CSR theories, which may emphasize shareholder value or regulatory compliance, research in Islamic finance seeks to embed CSR within Shariah principles, emphasizing social welfare, justice, and community development. The trend underscores that CSR in Islamic Financial Institutions (IFIs) is not merely a business strategy but is rooted in religious obligations and moral duty. The work by Dusuki & Abdullah (2007) and Farook (2007) emphasizes the inherent nature of Islamic ethics in promoting CSR behaviors in IFIs, guided by concepts like *maslahah* (public interest) and fair wealth distribution.

This approach makes CSR integral to Islamic financial behavior, indicating a paradigm shift from viewing CSR as voluntary philanthropy to understanding it as a core element of business practices in IFIs.

B. Alignment and Challenges in ESG Criteria and Islamic Finance

A second emerging trend is the exploration of Environmental, Social, and Governance (ESG) criteria and their intersection with Islamic finance principles. Research like that of Gunardi et al. (2021) and Platonova et al. (2018) indicates that while there is significant overlap between ESG principles and Islamic ethical values, the practical implementation of ESG within Islamic finance presents challenges. These include the lack of standardized frameworks that merge Shariah-compliance with ESG standards and the difficulty in operationalizing concepts like social justice and ethical investing in a financial context.

Future research is increasingly focusing on creating a unified framework that bridges ESG criteria with Islamic finance to guide robust CSR practices. Additionally, there is growing interest in how these frameworks can be standardized to support global sustainability objectives and Islamic finance principles concurrently.

C. Standardization of CSR Disclosure and AAOIFI Guidelines

Research has been increasingly centered around the need for consistent CSR disclosure practices in Islamic finance, given that standardization is a

challenge across the Islamic financial sector. Studies like those by Aribi & Gao (2012), Platonova et al. (2018), and Ineizeh et al. (2022) focus on the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as a guiding body for standard-setting in CSR reporting. The significance of AAOIFI standards, particularly GSIFI 7, reflects a growing trend toward formalizing and systematizing CSR reporting practices.

The challenge of adopting these standards universally across all Islamic markets is a key research area, as consistent CSR disclosure can contribute to enhanced transparency, accountability, and stakeholder trust in IFIs. Future research is likely to focus on the efficacy of these standards and their impact on both CSR performance and financial outcomes.

D. Stakeholder Theory Adapted to Islamic Contexts

A significant research trend is the adaptation of stakeholder theory to the Islamic context, incorporating Islamic ethical principles to expand the scope of stakeholders beyond conventional definitions. Studies such as Dusuki & Abdullah (2007) and Aribi & Arun (2015) propose a stakeholder model where Shariah is considered a central stakeholder, and the objectives of *Maqasid al-Shariah* are key drivers of CSR behavior.

This trend reflects a move toward recognizing the broader social and spiritual obligations of Islamic finance. The research emphasizes the inclusion of various stakeholders (e.g., society, community members, and spiritual values) in decision-making and CSR practices, with a focus on achieving social welfare and ethical business behavior. This highlights the potential for Islamic finance to establish a more inclusive and balanced approach to stakeholder theory.

E. Maqasid-based CSR Models and Framework Development

Developing models that are rooted in the objectives of Islamic law (*Maqasid al-Shariah*) has emerged as a trend in guiding CSR practices in IFIs. The emphasis is on creating comprehensive frameworks that integrate financial, social, and spiritual welfare while aligning with Shariah principles. Research by Dusuki & Abdullah (2007) and Platonova et al. (2018) highlights the importance of such models in shaping the CSR behavior of Islamic banks to achieve holistic social and economic development.

These studies suggest that there is an increasing trend toward creating CSR models that not only meet ethical business requirements but also contribute to achieving the core objectives of Islamic law, such as protecting faith, life, intellect, lineage, and wealth. However, the challenge remains in balancing financial performance with social and spiritual objectives.

F. Empirical Assessment of Ethical Identity and CSR Performance

Empirical studies like those by Haniffa & Hudaib (2007), Maali et al. (2006), and Platonova et al. (2018) have started to measure the ethical identity and CSR performance of Islamic banks to provide tangible evidence of how these institutions reflect Islamic values in their operations. The development of tools like the Ethical Identity Index (EII) and assessments of CSR disclosure levels in Islamic banks indicate a trend towards data-driven analysis to evaluate the impact of CSR on financial performance and ethical identity.

Future research may further investigate the relationship between the extent of CSR activities and financial outcomes, as well as the implications of transparency and comprehensive disclosure practices for the reputation and ethical standing of Islamic banks.

G. Challenges in Balancing Profitability, Ethical Obligations, and CSR Practices

The balancing act between profitability, social justice, and CSR practices in Islamic finance is a significant research theme. Studies by Dusuki & Abdullah (2007), Zaman et al. (2018), and Mallin et al. (2014) highlight the inherent tension between achieving financial goals while adhering to Shariah-based ethical standards. These challenges are particularly prominent in environments where market pressures may drive profit-focused behavior, potentially at the expense of social responsibility.

The trend in research is to explore practical solutions to balance these competing objectives and develop strategies for IFIs to maintain financial sustainability while upholding their ethical and social responsibilities.

H. Opportunities for Social Finance and Impact through Islamic Ethical Principles

A forward-looking trend is the exploration of opportunities within Islamic finance to create innovative social finance products and practices that can drive positive societal change. By emphasizing principles like social justice, equitable wealth distribution, and ethical investment, Islamic finance is well-positioned to lead in areas such as microfinance, *Qard al-Hasan* (benevolent loans), and other social impact finance solutions (Ineizeh et al., 2022; Aracil, 2019).

Research is expected to explore how these opportunities can be harnessed to set benchmarks for ethical finance practices that are not only compliant with Shariah but also promote sustainable development, social equity, and economic welfare.

practical implementation of CSR practices through standardized frameworks like AAOIFI. Additionally, there is increasing interest in developing theoretical models that integrate social, ethical, and financial dimensions, as well as empirical assessments of CSR performance to gauge the impact of ethical practices on Islamic finance. The trends underscore the potential of Islamic finance to lead ethical finance practices globally, contributing to social welfare and sustainable development in a way that aligns with religious principles and societal needs.

5. Conclusion

This study has explored the relationship between behavioral theory, Corporate Social Responsibility (CSR), and Islamic finance, focusing on how ethical obligations drive CSR behavior and disclosure within Islamic Financial Institutions (IFIs). By examining the unique principles that guide IFIs, the study provides insights into how Shari'ah-compliant financial practices shape the integration of CSR into their core operations, distinguishing them from conventional financial institutions. The emphasis on ethical conduct, social welfare, and transparent governance forms the foundation of CSR within Islamic finance.

The key findings of the study can be summarized as follows:

- Behavioral theory serves as a framework to understand CSR in Islamic finance, where ethical and moral principles derived from Shari'ah emphasize social justice, welfare, and equitable wealth distribution, making CSR a core obligation rather than a voluntary initiative.
- The ethical principles of transparency and accountability shape CSR disclosure practices within IFIs. Disclosure is an ethical obligation that reflects the institution's adherence to Islamic values, promoting stakeholder trust through comprehensive and transparent reporting.
- There is a natural alignment between ESG criteria and Islamic finance principles. Both frameworks prioritize ethical behavior and social welfare, yet integrating ESG fully within Islamic finance is challenged by the need for a standardized framework that aligns with both global sustainability standards and Shari'ah requirements.
- Governance structures, including board characteristics and Shari'ah supervisory boards, play a pivotal role in ensuring that CSR activities are consistent with Islamic principles. Strong governance mechanisms contribute to ethical business conduct and reinforce the alignment of financial performance with ethical and social objectives.

Recommendations for Islamic Financial Institutions

To enhance CSR behavior and disclosure consistent with Islamic values, the following recommendations are proposed:

- **Integrate CSR into Core Business Strategies:** IFIs should embed Shari'ah principles into their business strategies, making CSR a central part of operations that promotes social justice, welfare, and ethical conduct.
- **Standardize CSR Disclosure Frameworks:** Develop a standardized CSR disclosure framework that aligns with both Shari'ah principles and global ESG standards. The AAOIFI can lead in establishing guidelines to enhance transparency and build stakeholder trust.
- **Enhance Governance Structures for Effective CSR Oversight:** Strengthen governance structures, particularly Shari'ah supervisory boards, to ensure robust CSR oversight. Diverse board expertise in CSR, ethics, and Islamic finance is essential for implementing both financial and social objectives.
- **Promote Stakeholder Engagement and Ethical Awareness:** Engage actively with stakeholders to align CSR practices with societal needs and Islamic ethical obligations. Educational initiatives for board members

and staff on CSR within Islamic finance can promote ethical business practices and responsible behavior.

The Future of Ethical Finance in a Sustainable World

- Aligning CSR practices with Islamic ethics presents an opportunity for Islamic finance to contribute significantly to global sustainability and ethical discourse.
- The Shari'ah principles that underpin Islamic finance advocate for social welfare, fairness, and transparency, providing a robust ethical framework that aligns closely with the goals of sustainable development and responsible investing.
- By integrating CSR into financial operations, IFIs can lead the way in promoting ethical finance practices that not only benefit the financial sector but also contribute to societal welfare and sustainable economic growth.
- By adopting standardized CSR frameworks and enhancing governance and disclosure practices, IFIs can set benchmarks for ethical financial practices that align both with Islamic principles and global ESG standards.
- This alignment not only strengthens the ethical identity of Islamic financial institutions but also promotes sustainable development and provides a model for integrating ethical considerations into mainstream financial operations. As the world increasingly seeks to balance financial performance with social and environmental concerns, Islamic finance can play a pivotal role in advancing ethical finance and fostering a more equitable and sustainable global economy

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