CORPORATE SOCIAL RESPONSIBILITY (CSR) MANAGEMENT PROCESS AT BANK ISLAM MALAYSIA BERHAD

FATHIYYAH ABU BAKAR

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By

FATHIYYAH ABU BAKAR

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ABSTRACT

The notion of corporate social responsibility (CSR) from the Islamic perspective has been viewed by reference to the *Tawhid* and *Shariah* paradigms and other concepts such as *maqasid Shariah* (objectives of *Shariah*), *maslahah ammah* (public interest) and *masuliyyah* (accountability). From this point of view, CSR engagement is a tool to maintain a good relationship to Allah, other human beings and the environment. However, the process of managing CSR engagement in accordance with *Shariah* principles has been given scarce attention in the academic and practitioner literature. Thus, this study aims to describe and develop a managerial guideline on the CSR management process in accordance with *Shariah* principles. Using the case study approach, CSR key players and beneficiaries at Bank Islam Malaysia Berhad were interviewed to determine the relevant concepts, objectives, factors, benefits and challenges of CSR. Several series of in-field observations of CSR events were conducted, and documentation was reviewed in order to better understand and explain the process. The findings of this study indicate that CSR relates to any activity in which the bank engages to discharge religious, social and economic responsibilities and accountabilities to attain *barakah* (Allah's blessings) and to enhance the well-being of the stakeholders and the business. Commitments from all members in the bank, pressure from various stakeholders and the amount of CSR funds are among the factors that influence CSR engagement. This engagement is part of *fard-kifayah* to fulfill religious obligations, strengthen relationships with various stakeholders, improve the well-being of the recipients and offer positive effects to the bank. In light of the CSR management process, the findings reveal that the process has shifted to a systematic approach and is well planned. Hence, the proposed managerial guideline on the process may offer new insights to the body of knowledge on CSR and may help business entities to manage CSR systematically.

Keywords: corporate social responsibility (CSR), CSR management process, Islamic bank, case study

ABSTRAK

Pandangan terhadap tanggungjawab sosial korporat menurut perspektif Islam ini bersandarkan kepada paradigma *Tawhid* dan *Syariah* dan juga konsep-konsep lain seperti objektif *Syariah*, kepentingan umum dan akauntabiliti. Menurut pandangan ini, penglibatan dalam tanggungjawab sosial korporat merupakan satu kaedah untuk mengekalkan hubungan yang baik kepada Allah, sesama manusia dan alam sekitar. Walau bagaimanapun, proses untuk menguruskan penglibatan dalam tanggungjawab sosial korporat berdasarkan kepada prinsip *Syariah* ini kurang mendapat perhatian dalam amalan dan penulisan akademik. Oleh itu, kajian ini bertujuan menerangkan dan mengusulkan satu garis panduan pengurusan berkaitan penglibatan dalam tanggungjawab sosial korporat berdasarkan prinsip *Syariah*. Dengan menggunakan kaedah kajian kes, sekumpulan pelaksana utama dan penerima bantuan tanggungjawab sosial korporat di Bank Islam Malaysia Berhad telah ditemu bual bagi menjelaskan tentang konsep, objektif, faktor, manfaat dan cabaran kepada tanggungjawab sosial korporat ini. Beberapa siri pemerhatian lapangan terhadap aktiviti-aktiviti tanggungjawab sosial korporat dan juga analisa dokumen-dokumen yang berkaitan telah dilakukan bagi mendapatkan gambaran yang lebih jelas tentang proses tersebut. Dapatan kajian ini menyatakan tanggungjawab sosial korporat berkaitan dengan sebarang aktiviti melibatkan bank untuk melaksanakan tanggungjawab dan akauntabiliti terhadap agama, sosial dan ekonomi bagi mendapatkan keberkatan dan meningkatkan kesejahteraan pihak berkepentingan dan juga perniagaan. Komitmen semua pihak di dalam bank, tuntutan pelbagai pihak berkepentingan dan juga jumlah dana tanggungjawab sosial korporat adalah antara faktor yang mempengaruhi tanggungjawab ini. Penglibatan ini merupakan sebahagian daripada kewajipan bersama untuk menyempurnakan tuntutan agama, mengukuhkan hubungan dengan pelbagai pihak berkepentingan, meningkatkan kesejahteraan penerima bantuan dan menyumbangkan kesan yang positif kepada bank. Berkaitan dengan proses pengurusan tanggungjawab, dapatan kajian menunjukkan proses ini telah mengalami perubahan menerusi pendekatan yang lebih sistematik dan terancang. Maka, garis panduan pengurusan yang dicadangkan ini boleh memberi pemahaman yang baru kepada kerangka ilmu tanggungjawab sosial korporat dan membantu entiti perniagaan untuk menguruskan tanggungjawab ini dengan lebih sistematik.

Kata kunci: tanggungjawab sosial korporat, pengurusan tanggungjawab sosial korporat, perbankan Islam, kajian kes

ACKNOWLEDGEMENT

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LIST OF ABBREVIATIONS

CSR   Corporate social responsibility
SWT   Subhanahu wa Taala
Pbuh   Peace be upon Him
BIMB   Bank Islam Malaysia Berhad
CR   Corporate responsibility
ICRM   Institute of Corporate Responsibility Malaysia
IFI   Islamic financial institution
SC   Securities Commission
PINTAR   Promoting Intelligence, Nurturing Talent and Advocating Responsibility
GLC   Government-linked company
AAOIFI   Accounting, Auditing Organization for Islamic Financial Institutions
MASB   Malaysian Accounting Standard Board
CEO   Chief executive officer
MDAB   "Mengubah Destini Anak Bangsa"
BICC   Bank Islam Credit Card
NGO   Non-governmental organizations
PLCs   Public listed companies
JAWHAR   *Jabatan Waqaf, Zakat dan Haji*
MNCs   Multi-national corporations
SSC   *Shariah* supervisory council
KPI   Key performance indicators
JKM   *Jabatan Kebajikan Masyarakat*
UUM   Universiti Utara Malaysia
HR   Human Resource
UiTM   Universiti Teknologi Mara

CHAPTER ONE: INTRODUCTION

O Adam's son! Spend your wealth, it is good for you. And do not block it, it is bad for you, and the wealth according to the need cannot be reproached. Spend first for your family and dependents, and the raised hand is better than the lowered hand

(Muslim)

1.1 Introduction

Corporate social responsibility (CSR) has been recognized and developed significantly over the last few decades in the business sector and in the academic literature (Panapanaan, Linnanen, Karvonen, & Phan, 2003) all over the world. The issue of CSR is widely discussed and debated among researchers and also among leaders in companies. Various terms have been introduced to discussing the social responsibility of companies, such as corporate responsibility (CR), corporate social responsibility (CSR) (Carroll, 1991), corporate social performance (Clarkson, 1995; Wood, 1991) and corporate citizenship (Harribey, 2011; Hemphill, 2004). The term "CSR" is used in this study with the assumption that the terminology covers all the above (Argandona & Hoivik, 2009) and is well established in the CSR literature. As claimed by Carroll and Shabana (2010, p. 86), "CSR remains a dominant, if not exclusive, term in the academic literature and in business practice".

For this study, CSR is viewed from the Islamic perspective. The process of managing CSR activities is based on the experience of Bank Islam Malaysia Berhad (Bank Islam), the pioneer in the Islamic banking system in Malaysia. In this context, CSR engagement is a tool for companies to discharge their religious, social and economic responsibilities and accountabilities in order to maintain a good relationship with Allah, other human beings and the environment. The ultimate objectives of engaging in CSR activities are to attain *barakah* (Allah's blessings) and *al-falah* (wellbeing) in this life and the Hereafter.

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1.1.1 Overview of CSR Concept and CSR Management Process

CSR covers a wide range of areas such as business ethics, corporate governance, socially responsible investing, environmental sustainability and community investment. The World Business Council for Sustainable Development (WBCSD) (1999, p. 3) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" and the European Commission (2011, p. 6) defines as "the responsibility of enterprises for their impacts on society". From these two definitions, it can be said that CSR is about the social and economic commitments of companies to enhance the wellbeing of various stakeholders such as employees and the society or communities in which the company operates.

Many CSR scholars agree that CSR is about doing business sustainably and ethically by being responsible for the stakeholders' wellbeing and influenced by environmental (internal and external) factors (Argandona & Hoivik, 2009; Clarkson, 1995; Katamba *et al.*, 2012; Panapanaan *et al.*, 2003). The interpretation and meaning of CSR may be influenced by religion, perception, value, knowledge, background, culture and environmental context (Dusuki & Yusof, 2008; Jamali, Zanhour, & Keshishian, 2009; Shareef, Arunachalam, Sodique, & Davey, 2014). Thus, in the Western point of view, CSR is about doing business sustainably and ethically and being responsible for the wellbeing of all the business's stakeholders as well as for the business's sustainability and reputation. The conventional perspective of CSR in Western settings is only concerned with the material aspects to fulfill the various expectations of stakeholders and does not cover the spiritual or religious obligations to The Creator (Allah).

In contrast, the concept of CSR from the Islamic perspective is a wide and comprehensive concept because it is derived from the *Al-Quran* [1] and *As-Sunnah* [2] (Ahmad, 2001; Hanafy & Sallam, 2001; Yusof & Bahari, 2011) which are the primary sources in the *Shariah Islamiyyah* [3]. The concept of CSR is mentioned many times in the *Quranic* verses (e.g. Quran 47:38; 9:99; 64:16; 2:261; 2:271; 17:100; 64:17-18; 59:7 and 34:39) and has also been stressed by the Prophet Muhammad (peace be upon Him (pbuh) in the *Hadith*. For instance, Allah Subhanahu Wa Taala (SWT) commands Muslims to be kind to all creatures:

> But seek, with that [wealth] which Allah has bestowed on you, the home of the Hereafter, and forget not your portion of lawful enjoyment in this world, and do good as Allah has been good to you, and seek not mischief in the land. Verily, Allah likes not the *Mufsidun* [those who commit great crimes and sins, oppressors, tyrants, mischief-makers, corrupters].
>
> (Quran 28:77)

Moreover, it covers spiritual, moral and material obligations (Mohammed, 2007; Parvez & Ahmed, 2004). According to Islamic business ethics, a Muslim businessperson must demonstrate all kinds of *mahmudah* (good behaviors) such as trust, sincerity, balance and *adl* (justice)*,* responsibility and accountability. The objective of CSR in Islam is to promote social justice as well as to obtain *barakah* and *al-falah* in this life and in the Hereafter as the Quran enjoins in *Surah An-Nisa'*, verse 29:

> O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent. And do not kill yourselves [nor kill one another]. Surely, Allah is Most Merciful to you.
>
> (Quran 4:29)

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[1] Book of Divine Revelations and a main source in Islamic teaching.
[2] Prophet Muhammad's (pbuh) customs, words, deeds and habitual practices and all of these have been narrated in a report known as the *Hadith*.
[3] Islamic law of human conduct which regulates all matters of Muslim life and derived from Al-Quran and *As-Sunnah* and *Hadith*, *Ijma* and *Qiyas* and *Ijtihad* .

Social responsibility is not a new issue in the Islamic perspective and two practices that have been denoted as a form of social responsibility are the payment of *zakat*[4] (e.g. Quran 2:43; 2:83; 2:110) and the prohibition of *riba* (usury) (e.g. Quran 30:39; 2:275; 2:278-279). Islam urges Muslims to be kind to all creatures and all humans as proof of *iman* (perfect faith) (Afridi & Navaid, 2006). Thus, the concept should be discussed together with the concept of *Tawhid* (the unity of Allah) where Allah is the Creator, Owner, Absolute, and Ultimate (Quran, 39:44) and *Shariah* via the concept of vicegerent (Dusuki, 2008b).

According to these concepts, people have to maintain *hablun min Allah* (a good relationship with Allah (SWT)), *hablun min an-nas* (a good relationship with other human beings) and a good relationship with the environment (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001) to achieve the *maqasid Shariah* for *maslahah ammah*. These relationships can also be applied to all types of business organizations that identify as *Shariah* compliant business organizations including in banking and finance, manufacturing, agriculture and other sectors. Organizations should ensure that all business operations and transactions are compliant with the *Shariah* principles and respect the rights of all stakeholders such as shareholders, employees, customers, society and also to conserve the environment.

For instance, as an Islamic business entity, an Islamic bank has a religious obligation (Basah & Md Yusuf, 2013; Darrag & E-Bassiouny, 2013; Farook, 2007; Hasan, 2001; Parvez & Ahmed, 2004; Sairally, 2013; Thibos & Gillespie, 2011) towards the society to

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[4]   Obligatory charity imposed on Muslims who are able to do so. The two types of *zakat (zakat al-fitr* and *zakat*) on wealth cover money from business, savings, income and so on.

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conduct the business in accordance with the *Shariah* and to integrate a social agenda in its business objectives, strategies and culture (Arshad, Othman, & Othman, 2012; Basah & Md Yusuf, 2013; Mohd Nor & Asutay, 2011; Wan Abdullah, Percy, & Stewart, 2011). Further, the Islamic bank has been perceived as having a social face or role (Arshad *et al.*, 2012; Mohammed, 2007; Sairally, 2013) whereby the bank is not only responsible for making profits but also to help the surrounding society and communities (Abdul Rahman, Md Hashim, & Abu Bakar, 2010; Dusuki, 2008a; Maali, Casson, & Napier, 2006; Yusof & Bahari, 2011). Islamic banks should consider these additional obligations towards the community surrounding the business as part of *fard kifayah* (Farook, 2007).

Thus, to discharge these responsibilities and accountabilities, the bank may conduct and manage these commitments systematically to maximize the benefits such as engagement with stakeholders. However, the CSR management process is unique and different companies practice different CSR strategies and approaches (Argandona & Hoivik, 2009; Hanke & Stark, 2009; Lindgreen, Swaen, & Johnston, 2009). The CSR management process may include, among others: processes for management and board responsibilities, identification of stakeholders' expectations, strategic planning, managing resources, processes and systems, measurement and analysis, managing change and continual improvement (Castka, Bamber, Bamber, & Sharp, 2004); and five essential activities, namely, organization and structure, planning, implementation, monitoring and evaluation, and communication and reporting, which require commitment, time and resources for the benefit of employees, community members, suppliers and customers (Panapanaan *et al.*, 2003).

Therefore, this study argues that the CSR management process may involve several processes such as environmental analysis, designing, implementing, and control and evaluation which require human, financial and physical resources for the benefit of various stakeholders. In addition, all of the activities in this process should be in accordance with the *Shariah* principles and guidelines for the *maslahah ammah* (public interest). The aim of this study is to develop a managerial guideline for companies in managing their CSR initiatives from the Islamic perspective.

Furthermore, this study highlights the role of accountants and CSR budgeting in the CSR management process. Accountants need to use their professional skills such as analysis, reporting, judgment and business knowledge to help management to conduct the business successfully. When an organization starts to account its CSR, accountants need to integrate accounting knowledge with a good understanding of the nature of the business and they must have soft skills such as influencing skills to help the management team make better decisions ("Post-Dubai, whither Islamic finance?," 2010). Additionally, CSR budgeting may need to be prepared to ensure the CSR fund is well managed. Clearly, companies must take the management of CSR funds into account when planning future CSR initiatives.

Moreover, in order for companies to manage these initiatives systematically, internal and external factors that may be influential need to be examined carefully. In a similar vein, challenges to conducting the activities also may need to be taken into consideration in order to maximize the benefits that may yield from such activities. Prior studies claim that CSR engagements are influenced by their contextual setting (Mohammed, 2007; Shareef *et al.*, 2014).

1.1.2   CSR in the Malaysian Context

In the academic literature, studies on the CSR engagements of Malaysian companies are not yet extensive (Ramasamy, Ng, & Hung, 2007) as compared to studies set in Western countries. Most of the previous studies on CSR are based on foreign companies' experiences that may not reflect Malaysia's local phenomena and business culture (Amran & Siti Nabiha, 2009). In the Malaysian CSR studies that do exist, the focus is concentrated on awareness, perceptions and attitudes among: (i) leading experts or players in CSR (Lu & Castka, 2009); (ii) accounting professionals (Zulkifli & Amran, 2006); (iii) managers and executives (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Hossain & Siwar, 2013; Muwazir *et al.*, 2012; Teoh & Thong, 1984); and (iv) employees (Ramasamy & Hung, 2004).

Further, there are also empirical studies that consider the customers' perspectives of CSR engagement (Abd Rahim, Jalaludin, & Tajuddin, 2011; Atan & Abdul Halim, 2011; Mohd Nor & Asutay, 2011; Yam & McGreal, 2010). These studies conclude that companies in Malaysia are aware and show a positive reaction to engaging in CSR initiatives. Many companies have already moved forward to promote and practice CSR in their own ways (Hossain & Siwar, 2013; Lo & Yap, 2011; Muwazir *et al.*, 2012).

In addition, speaking as the chief judge of the Star-Biz-ICRM Corporate Responsibility Awards 2009, the Chairman of Malaysia's Securities Commission (SC) Tan Sri Zarinah Anwar said the CR awareness and understanding in Malaysia had increased in the last few years due to the following factors: (i) the establishment of the Institute of Corporate Responsibility Malaysia (ICRM); (ii) the development of Bursa Malaysia's CSR framework; (iii) the launch of the "Silver Book" guidelines for government-linked

companies (GLCs): (iv) the requirement in the 2007 Budget for companies with government contracts to report CSR activities in annual reports; and (v) the requirement of Bursa Malaysia-listed companies to have a CSR section in annual reports by the end of 2007 (Anwar, 2007). However, there is scarcity of research on how companies manage these initiatives in the Malaysian contextual setting which is dominated by the Muslim community. Thus, this study was embarked upon to explore and to determine the process of managing such initiatives in a systematic way and encourage more Malaysian companies to engage in CSR activities.

1.2   Motivation of the Study

This study was initially motivated by personal interest in Islamic banking which has the following objectives: (i) to fulfill religious obligations (i.e. its business activities should comply with all *Shariah* guidelines, commit to Islamic values and be a part of accountability to Allah); (ii) to discharge social obligations (realizing *maslahah* - the wellbeing of the community); and (iii) to meet the financing needs of Muslim consumers (or non-Muslim consumers who elect to use Islamic banking products and services) (Arshad *et al.*, 2012; Farook, 2007; Mohammed, 2007; Mohd Nor & Asutay, 2011; Platonova, 2013; Sairally, 2013). These objectives have been formulated to achieve a noble goal as envisaged in the *maqasid Shariah*. Thus, Islamic banks should not only focus on profit maximization, but they also have to fulfill other obligations such as religious and social commitments.

Farook (2007) claims that Islamic banks have to be socially responsible for two interrelated reasons: (i) to fulfill *fard kifayah* (a collective religious obligation); and (ii) to fulfill the Muslims' expectation of the bank to take an exemplary position as a Muslim

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financial provider in society (i.e. encouraging other people and organizations to promote social justice). Therefore, the banks should conduct more CSR activities and manage these activities in systematic ways because they have the capability in terms of financial and human resources. The ultimate objective of engaging in such initiatives is to receive *barakah* and to fulfill the demand of various stakeholders such as employees, community members, customers, shareholders and the environment. Prior studies claim that, unfortunately, Islamic banks have not fully integrated CSR as part of their business agenda—treating it rather as a peripheral activity—and that they do not properly manage their CSR activities (Mohammed, 2007; Sairally, 2013).

Thus, the apparent divergence in the practice of Islamic banks and the objectives of its establishment, as stated above, is the main motivation for conducting this study. The purpose of this study is to determine the Islamic concept of CSR and the CSR management process at Bank Islam. As the CSR terminology has been introduced into the business vocabulary for many years, it is time to conduct a study on the groundwork of CSR initiatives (exploring how companies conceptualize the CSR concept and manage these initiatives) based on the Islamic perspective in the Malaysian contextual setting. In line with that, in her speech at the Star-Biz-ICRM CR Awards 2009, SC Chairman also said that the judges were looking for companies which viewed CSR as part of the company's strategy and emphasized CSR performance rather than relying only on CSR disclosures in reports. It is hoped that the present study will help companies in Malaysia, especially Muslim business entities, to integrate CSR as part their commitment to improve the wellbeing of society by enhancing the way companies understand, design, implement, evaluate and sustain their CSR activities.

1.3   Issues and Problem Statement

According to Bank Negara Malaysia's website, as at 21 May 2013, there were 16 Islamic

banks, five international Islamic banks and 27 commercial banks on the licensed banking

institutions list in Malaysia. To be sustainable in the banking and finance industry, these

banks should provide the best banking products and services to the Malaysian consumers.

For some banking consumers, the engagement with CSR initiatives is becoming part of

their selection criteria (Dusuki & Abdullah, 2007b). Hence, it is very important for

Islamic banks to operate the business in accordance with the *Shariah* principles and to

demonstrate their commitment to being social responsible bankers (Darrag & E-

Bassiouny, 2013) by having a sound CSR management process. For these reasons, there

are four issues that need to be addressed in this study.

Firstly, many teachings of Islam are indeed aligned with the concept of CSR (Khan &

Karim, 2010; Ramasamy *et al.*, 2007; Williams & Zinkin, 2010; Zainal, Zulkifi, & Saleh,

2013; Zinkin, 2007) but unfortunately little is known about the concept of CSR from the

Islamic perspective (Atan & Abdul Halim, 2011; Darrag & E-Bassiouny, 2013; Dusuki,

2008b; Mohammed, 2007; Mohd Nor, 2012; Thibos & Gillespie, 2011). Moreover, the

Islamic perspective in CSR literature remains scattered and fragmented and there is a lack

of a coherent framework or guideline (Darus *et al.*, 2013; Muhamad, 2007).

There is a need to study CSR from Islamic perspectives because Islam considers social

responsibility to be part of an individual's *ibadah* (worship) and the concept is derived

from the *Tawhid* and *Shariah* paradigm. In addition, the concept of social responsibility

and accountability in Islam is to govern *hablun min Allah* (the relationship with Allah)

and *hablun min an-nas* (the relationship with other human beings). This concept

promotes socio-economic justice and fairness to all business stakeholders such as shareholders, customers, employees, society and the environment. Hence, the CSR commitments should be viewed from a broad perspective such as to reduce the poverty rate in the Muslim community and as a tool to enhance the quality of Muslims' lives. Such an extension highlights that companies need to integrate CSR as part of their business agenda and manage these activities properly in order to optimize the benefits to all the stakeholders of the business.

Secondly, the objectives of CSR may vary from one organization to another because different organizations may have different business philosophies, strategies and cultures. As a result, many companies are still struggling to develop good CSR practices (Macarthur, 2009) and the ideal concept of CSR that can be practiced alongside the real-world business operations (Dusuki & Abdullah, 2007b). The ideal concept of CSR should discharge the religious obligations and reflect the aspirations of various business stakeholders to get *al-falah* in this world and Hereafter.

Thirdly, prior studies on the Islamic perspective of CSR have focused on: (i) the conceptualization of CSR (Basah & Md Yusuf, 2013; Darrag & E-Bassiouny, 2013; Dusuki & Abdullah, 2007a; Khan & Karim, 2010; Khurshid, Al-Aali, Soliman, & Mohamad Amin, 2014; Mohd Nor, 2012; Platonova, 2013); and (ii) its disclosure and reporting (Maali *et al.*, 2006; Thibos & Gillespie, 2011). However, limited attention has been given to the CSR management process, especially in designing and implementing CSR programs from the Islamic perspective. Most of the prior studies on CSR management are based on the conventional concept of CSR (to name some: (Maignan, Ferrell, & Ferrell, 2005; Maon, Lindgreen, & Swaen, 2009; Panapanaan *et al.*, 2003;

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Werre, 2003)) in which the contextual setting of the study is slightly different in terms of socio-economics, religious values and cultures.

Furthermore, even though many companies claim that they are socially responsible, they still query how this concept should be operationalized on the ground (Dusuki & Abdullah, 2007a; Sairally, 2013) and do not have effective strategies to manage CSR (Panapanaan *et al.*, 2003). This could be due to the fact that little has been written about how such commitment should be managed (Hond, Bakker, & Neergaard, 2007) or implemented (Smith, 2003) and the lack of a concrete managerial framework to manage diverse stakeholders' interests (Dusuki & Abdullah, 2007a).

Lastly, many CSR scholars agree that CSR engagements are influenced by various factors (internal and external) and face several challenges (Dusuki, 2008b; Saleh, Zulkifi, & Muhamad, 2010; Shareef *et al.*, 2014; Wong & Ahmad, 2010). CSR engagements are contextual and often driven by the local environment (culture, value, religion and socio-economic) conditions. In order to manage CSR in a systematic way, companies should determine carefully the factors and challenges that may influence their CSR activities and to reflect on their CSR concept. In addition, the benefits that may be yielded from CSR engagements are various (including both tangible and intangible benefits) from one company to another. Since this study discusses CSR from the Islamic perspective, the factors, benefits and challenges may vary from the studies in the literature that used the conventional view of CSR engagements to govern the human's relationship with Allah and other creatures.

1.4   Research Questions

Based on the above issues and problems, the research questions of this study are concerned with the Islamic concept of CSR and the CSR management process in business organizations to discharge their religious, social and economic obligations towards various stakeholders of the business. Specifically, this study attempts to answer the following research questions:

(i)   What is the concept of CSR for Bank Islam Malaysia Berhad?

(ii)   Why does the bank engage in and sustain CSR activities?

(iii)   What are the factors, benefits and challenges of CSR engagements?

(iv)   How does the CSR management process take place?

1.5   Research Objectives

The study aims to explore and to determine the Islamic concept of CSR and the CSR management process using the *Tawhid* and *Shariah* paradigm and other derivative concepts such as *maqasid Shariah* and *maslahah ammah*. This study is based on the underlying principles of *habun min Allah* and *hablun min an-nas* (relationship of man to Allah and man with other human beings) to discuss the concept of social responsibility and accountability from the Islamic perspective. The integration of the *Tawhid* and *Shariah* paradigm in discussing the Islamic concept of CSR may address some of the problems in both conventional and Islamic perspectives of CSR such as in the discharging of religious obligations and managing CSR activities. The concept is further explored to describe how this notion of CSR is managed in practice through the case study of Bank Islam.

Specifically, the purpose of this study is, firstly, to determine the concept of CSR for Bank Islam. Secondly, this study aims to identify the objectives of CSR engagements. Thirdly, it attempts to examine the factors and challenges that may influence CSR engagement as well as the benefits that may arise from such engagements. Lastly, the study aims to describe and develop a managerial guideline on the CSR management process in accordance with *Shariah* principles.

The main objectives of this study are to determine the Islamic concept of CSR and to describe the CSR management process at Bank Islam. The integration of the *Tawhid* and *Shariah* paradigm in discussing the concept and how the concept is being operationalized in the case may contribute new insights to the CSR literature as most of the prior studies lack empirical evidence on the practice of the concept. Based on the findings, this study aims to develop a managerial guideline to help companies, particularly Muslim business entities, to conduct and manage their CSR activities systematically. This managerial guideline provides a step-by-step outline of how the activities are managed, from the environmental scanning phase to the control and evaluation phase. Hopefully, it may encourage more companies to engage in and sustain such activities for the benefits of all stakeholders including society and the environment. To assist companies in managing such activities, they may need to identify their internal and external factors such as their stakeholders and financial resources to sustain the social commitments to be a good corporate citizen. On top of that, companies may need to set the objectives of why the company needs to engage and to integrate such commitments as part of its business agenda. Developing the local society for better quality of life is a shared responsibility between business entities and the government.

1.6   Research Process

In discussing the Islamic concept of CSR and the CSR management process, this study employs *Tawhid* and *Shariah* paradigms and other concepts such as *maqasid Shariah, maslahah ammah* and *masuliyyah* (accountability). Furthermore, the ethical basis and spirituality become a central issue in the Islamic management model, to balance the material and spiritual wellbeing (Loqman, 2001). Hence, the commitment of religious responsibility has been integrated to propose a managerial guideline on the CSR management process by incorporating other existing models like those in (Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Thorne, Ferrell, & Ferrell, 2008; Werre, 2003).

Hence, this study chose Bank Islam as a case study to gain a better understanding about the CSR engagements. The bank is a pioneer in exploring and developing the Islamic banking system in Malaysia. With 30 years' experience as a major Islamic bank and named the Best Islamic Bank in Malaysia by the Islamic Finance News in the Best Banks Poll 2012 (Bank Islam Annual Report 2012), the bank is ready to share its experiences in conducting CSR activities to be a responsible and prudent corporate citizen (part of the mission statement of the bank). Moreover, the bank has been ranked as the 4th strongest bank in Malaysia and won several awards such as the "Corporate Social Responsibility Program of the Year (Bronze)" at the Asian Banking and Finance Awards 2013 (Uy, 2013), the "Gold" for "Best Annual Report in Bahasa Malaysia" in the National Annual Corporate Report Awards 2012 and the Malaysia Service to Care Awards 2011 and 2012 for the Islamic bank category by MarkPlus, Inc (Bank Islam Annual Reports 2011 and 2012).

In addition, the bank claims that it has engaged in CSR activities since the first day of incorporation through the payment of business *zakat* (obligatory alms giving) regardless of whether the business performance was a profit or loss. In the three years to 2012, the bank paid and distributed almost RM30 million of *zakat* to enhance the wellbeing of society (Bank Islam Annual Report 2012). Based on its commitments and experiences in creating value for various stakeholders especially in the community, Bank Islam is aware of the benefits of engaging in the CSR initiatives for the short-term and long term. As the bank claims on its website:

> At Bank Islam, CR goes beyond donations, sponsorship and charity work. Embedding CR practices into our overall business operations, product and services department is our culture dedication to leverage for business sustainability, putting forth impactful values for everyone.

(Bank Islam Malaysia Berhad, 2010)

In order to understand the concept and the groundwork of CSR engagements, particularly in managing various stakeholders' aspirations, a number of Bank Islam senior managers and officers as well as beneficiaries of the bank's initiatives were interviewed. As stated by Maignan, Ferrell and Ferrell (2005, p. 967), "formal documents may not be sufficient to elicit how the organization envisions its relationships and contributions to stakeholders". In addition, a series of in-field observations of CSR programs were conducted and CSR documentation and reports such as annual reports, corporate websites and flyers were analyzed to support the findings and arguments. All of these findings were analyzed and are presented systematically in this thesis.

1.7 Key Findings: A Brief Note

Generally, based on the findings of this study, CSR engagements at Bank Islam have been practiced since the first day of the bank's establishment due to the commitment of the bank to pay business *zakat* regardless of whether the bank was at a profit or loss. Most of the respondents, especially the staff of the bank, related the CSR engagements to their religious, social and economic obligations which have been embedded in their business agenda and corporate culture. In addition, CSR engagements at Bank Islam were highly related to *zakat* and *zakat* management due to the substantive amount of CSR funds that were derived from the *zakat* funds (refundable *zakat*). In distributing the *zakat* fund, the bank focused on three main categories of *asnaf* (needy), namely, *fuqara'* (the desperately poor)*, masakin* (the poor), and *fisabilillah* (for Allah's cause). The main objective is to improve individuals' wellbeing by providing *daruriyyat* (basic needs) such as accommodation and financial assistance.

Furthermore, most of the CSR activities at Bank Islam concentrated on community projects such as the rehabilitation and rebuild homes project, the "Promoting Intelligence, Nurturing Talent and Advocating Responsibility" (PINTAR) program in schools, poverty reduction projects, unity programs, care of senior citizens and the homeless, and improving mosque facilities. In this study, three community projects, namely, the home project, PINTAR program and *zakat* distribution to universities, were observed to illustrate the process of CSR management. The findings indicate that the process of managing such activities has shifted to be more structured and systematic after the rebranding of the bank in 2007 (being guided by Khazanah Nasional Berhad). Table 1.1 summarizes the research questions and the key findings of this study.

Table 1.1
Summary of Research Questions and the Key Findings

Research question (RQ)	Summary of findings
RQ 1: What is the concept of CSR for Bank Islam Malaysia Berhad?	CSR includes any activities in which the bank engages to discharge religious, social and economic responsibilities and accountabilities to maintain a good relationship with Allah, other human beings and the environment in order to achieve *maqasid Shariah* and *maslahah ammah*.
RQ 2: Why does the bank engage in and sustain CSR activities?	The main objectives of the bank's CSR engagements are to attain *al-falah* and *barakah* as well as to enhance the wellbeing of all stakeholders including society members and the environment and also for business sustainability.
RQ 3: What are the factors, benefits and challenges of CSR engagements?	The main factors that may influence the CSR engagements at Bank Islam are religious obligations, especially during *Ramadhan* (fasting month), pressure from various stakeholders, participation of the bank's members, and amount of the CSR fund.
	Among the benefits that may arise from CSR activities are the fulfillment of Islamic principles and values, strengthened relationship with various stakeholders, improved wellbeing of recipients as well as society, and positive effects to the bank.
	In addition, the bank may deal with some challenges in conducting the CSR activities such as difficulties in fulfilling the stakeholders' aspirations and demands, handling its internal sources (financial and human resources), and managing the CSR activities systematically.
RQ 4: How does the CSR management process take place?	Based on the findings, this study suggests that there are four phases in managing the CSR initiatives: environmental scanning, designing, implementing, and evaluating. All of these phases may need to adhere to all *Shariah* principles to achieve the *maqasid al Shariah* and *maslahah ammah.* In addition, there are ten steps in the CSR management process: (1) assessing external factors; (2) discovering organizational conditions/norms/values; (3) identifying stakeholders and their issues; (4) conforming to the *Shariah* principles; (5) determining the organization's CSR framework/policies; (6) assessing current practices; (7) setting objectives, strategies, and policies of CSR initiatives; (8) implementing CSR initiatives in accordance with the *Shariah* principles; (9) monitoring and gaining stakeholders' feedback on CSR initiatives; and (10) measuring CSR initiatives.
	Based on the case of Bank Islam, this study claims that the CSR management process has shown positive improvements to become more structured and well planned.

1.8 Contribution of the Study

This study contributes to the existing literature on CSR in terms of theoretical, managerial and policy contributions.

(i) Theoretical Contribution

This study contributes to the existing literature on CSR in various ways. First, this study discusses the concept of CSR from Islamic perspectives. Most of the prior studies on CSR are based on the conventional concept of CSR, which the concept is relatively keep changing and evolving due to being based on empirical observations, theoretical constructs, humanistic arguments, the lack of a comprehensive global context to cover diverse socio-cultural situations and the lack of consideration of moral or religious obligations (Dusuki, 2008b; Dusuki & Abdullah, 2007a; Haniffa, 2002; Mohammed, 2007; Parvez & Ahmed, 2004).

In addition, some of dominant theories in the CSR discussion such as stakeholder theory (Freeman, 1984; Freeman, Wicks, & Parmar, 2004) and legitimacy theory (Deegan, Rankin, & Tobin, 2002; Suchman, 1995) also fail to explain the religious or spiritual obligations of business entities towards the society and other stakeholders and focus more on the material performance (tangible benefits). In other words, most of the literature discusses the governance of the relationship between individuals/organizations with other human beings and individuals/organizations with the environment, and few studies focus on the relationship of businesses with Allah. Thus, this study may enhance the body of knowledge of CSR from the Islamic perspective to reflect Islamic teachings, values and principles.

Second, the study employs the *Tawhid* and *Shariah* paradigm and other derivative concepts like *maqasid Shariah*, *maslahah ammah* and *masuliyyah* to govern good relationships with Allah and other human beings as well with the environment. All of these concepts are used to discuss the concept of CSR and the CSR management process. The purposes of combining all of these concepts are to provide a strong foundation for explaining the concept and describing how the concept should be operationalized. For instance, Muslim business leaders believe that companies have an obligation to pay business *zakat* to the *asnaf* through *zakat* authorities or through self-distribution. In distributing the *zakat*, the companies should refer to the *Shariah* which provides a full guideline on how to manifest the practice. Unfortunately, some of the prior studies have overemphasized either the *Tawhid* paradigm (Muwazir, Muhamad, & Noordin, 2006) or the *Shariah* framework (or derivative concepts from the *Shariah* such as *maqasid* and *maslalah*) (Darus *et al.*, 2013) to explain the concept.

Third, most of the previous studies on CSR focus on the concept of CSR (Darus *et al.*, 2013; Dusuki, 2008b; Dusuki & Abdullah, 2007a; Khurshid *et al.*, 2014; Mohd Nor, 2012; Muhamad, 2007; Muwazir *et al.*, 2006) and empirical research to describe the process of CSR management is lacking. This study tries to provide some empirical evidence on how to operationalize the CSR concept in an Islamic bank where the objectives of its establishment are closely related to religious and spiritual obligations through the *maqasid Shariah* (objectives of the *Shariah*) to optimize human wellbeing (Basah & Md Yusuf, 2013; Platonova, 2013; Sairally, 2013).

In addition, most of the existing guidelines on the CSR management process are based on the conventional concept of CSR and the experience of Western companies which is different in terms of the contextual settings. According to Mohammed (2007) and Shareef, Arunachalam, Sodique and Davey (2014), the contextual setting is influenced by socio-economic, cultural and religious backgrounds. Therefore, to the best knowledge of the researcher, this is the first study on this topic in Muslim countries like Malaysia to provide new evidence on the CSR management process from the Islamic perspective.

(ii)   Managerial Contribution

This study may enrich the existing literature on the CSR management process by developing a managerial guideline in accordance with the *Tawhid* and *Shariah* paradigm and other concepts such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah.* This managerial guideline aims to provide an in-depth understanding of how a good CSR initiative is designed and implemented because it illustrates the step-by-step process in four phases: environmental scanning, designing, implementing, and evaluating (Chapter 7, Figure 7.1). The guideline also may assist companies' business leaders and management teams, especially in Muslim business entities, to manage their CSR activities in various ways.

First, during the design phase, companies should examine their financial resources (CSR funds) to support the activities and human resources (designated staff) to conduct the activities. In addition, companies also need to carefully identify their stakeholders and their issues equally to promote socio-economic justice. Thus, CSR managers can design a good CSR program with limited resources but high impact.

Second, during the implementation phase, companies need a strong support and involvement from staff as well as commitment from recipients. The involvement and cooperation from staff, local society and beneficiaries may improve the success of the CSR program. In this sense, top management may provide more incentives and rewards to the staff who actively and voluntarily participate in the CSR activities in order to appreciate and motivate their efforts and commitments.

(iii)   Policy Contribution

Another contribution of this study is to help the regulatory bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Malaysian Accounting Standard Board (MASB), Securities Commission (SC), Bank Negara and Bursa Malaysia in developing and preparing Islamic social responsibility reporting standards and CSR policies. A standardized guideline on CSR management is meaningful to companies that are struggling to develop a sound CSR policy and framework. Good CSR policies may be embedded in day-to-day business operations and be part of the organizational culture.

This effort may need to be communicated to all members in that organization and translated into high commitment to engage and sustain for the benefits of all stakeholders and ultimately to get Allah's blessing. Hopefully, CSR awareness and commitment of companies to be a good corporate citizen may improve and encourage more business players to actively engage in CSR activities.

Additionally, the government of Malaysia may offer more incentives and rewards to the companies that engage seriously and proactively in CSR activities in order to inculcate a sharing and caring culture among Malaysian citizens. Among the incentives are providing a tax rebate on the CSR expenses to recognize their efforts to improve the wellbeing of society. Furthermore, the government also may provide the tax incentives for the *zakat* payer organization of the *zakat* paid amount (a double tax deduction incentive or full deduction as for the individual *zakat* payer). The objective of this incentive is to encourage more Muslim business entities to pay *zakat* to lift the quality of life of the Muslim community.

1.9   Organization of the Thesis

The thesis comprises eight chapters. A brief overview of each chapter is presented to explain the aims of each chapter and how these aims are achieved. This may help to clarify the links between each chapter and to integrate this initial understanding with the main objectives of this study, which are to determine the Islamic concept of CSR and to describe the process of CSR management at Bank Islam.

Chapter One: Introduction

This chapter introduced the thesis by providing a brief explanation about the concept of CSR and then linking it to the notion of the Islamic concept of CSR. Further, a short note on the CSR management process was presented to explain the main concerns of this study. After that, the current state of CSR engagements in Malaysia was briefly discussed. This was followed by the motivation of the study, issues and problem statement, and the research questions, objectives and process. In addition, a brief note on

the key findings and an overview of the contributions of this study were presented to provide a preliminary understanding of this study.

Chapter Two: Literature Review

Chapter Two presents an in-depth review of the literature on the conventional and Islamic concepts of CSR, CSR in Islamic financial institutions, the factors that may influence CSR engagements, the benefits of CSR and the challenges in CSR engagements. Further, the process of managing CSR activities, involving managing CSR funds, managing stakeholders and their issues, and designing, implementing, reporting and communicating the CSR activities, is discussed.

Chapter Three: Conceptual Framework

The aim of this chapter is to discuss the conceptual framework of this study. It starts by introducing the *Tawhid* and *Shariah* paradigm, followed by the underlying principle which is *hablun min Allah* and *hablun min an-nas* to govern a good relationship with Allah and other human beings. In addition, other concepts such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah* are explained. The chapter ends with a review of the CSR management process from the Islamic perspective.

Chapter Four: Research Method and Design

Chapter Four describes the research method and design employed in this study. First, an explanation of single case study research is presented, together with the justification for selecting Bank Islam as a case. This is followed by the data collection process which consists of semi-structured interviews, in-field observations and documentation review.

This chapter also explains the process of data analysis and several considerations to improve the quality of qualitative research.

Chapter Five: Descriptive Findings of CSR Concept, Objectives, Factors, Benefits and Challenges at Bank Islam

This chapter presents the descriptive findings of the study concerning the concept and objectives of CSR, factors, benefits and challenges of CSR engagements at Bank Islam. Firstly, an overview of Islamic banking in Malaysia as well as the importance of CSR in Islamic banks is presented. Next, the concept and objectives of CSR, factors, benefits and challenges of CSR engagements that emerged from the findings are addressed, prior to further discussion of these findings in Chapter Seven.

Chapter Six: Descriptive Findings on CSR Management Process

Chapter Six presents the descriptive findings on the CSR management process at Bank Islam. It starts from the process of managing the CSR funds, explaining the role of the accounting staff and the *Shariah* compliance in the process. This is followed by describing the process of managing CSR initiatives and the three selected CSR initiatives are further discussed. This chapter ends by highlighting the process of communicating and reporting CSR activities at the bank.

Chapter Seven: Discussions of the Key Findings

This chapter provides an in-depth discussion on the key findings of the study. It starts with the discussion of CSR engagements at Bank Islam that have been practiced since the first day of incorporation, followed by an explanation of the *zakat* management issues. Next, several main factors, benefits and challenges in conducting the CSR initiatives are discussed before a detailed process of CSR management is elaborated. Lastly, a managerial guideline on the CSR management process is proposed.

Chapter Eight: Implications, Limitations and Conclusion

The final chapter in the thesis explains the implications and limitations and presents the conclusion. It starts with explaining several implications from theoretical, managerial and policy aspects. This is followed by identifying the study's limitations and suggesting some recommendations for future research. This chapter ends by overall remarks to conclude the study.

1.10 Summary of the Chapter

This chapter introduced the present study by indicating that CSR engagements are part of the religious obligation to be fulfilled by Muslim businesses. The concept of CSR was discussed by reference to the *Tawhid* and *Shariah* paradigm and other concepts such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah* related to the obligation to discharge religious, social and economic responsibilities.

Islam prescribes these obligations as part of worship to govern the relationship of Muslims to Allah and other human beings to attain *barakah* and *al-falah* in this life and the Hereafter. Thus, Muslim business entities should engage in and conduct CSR activities pro-actively by performing the business *zakat* and managing the business operations in accordance with Allah's will and the *Shariah.*

As explained in this chapter, the objectives of this study are to determine the Islamic concept of CSR and to identify the factors, benefits and challenges that influence CSR engagement at Bank Islam as the case study organization. In addition, this study aims to describe the process of CSR management and develop a managerial guideline for the process. It is hoped that this study will enhance the knowledge on CSR, particularly from the Islamic perspective in the Malaysian context.

CHAPTER TWO: LITERATURE REVIEW

2.1   Introduction

The preceding chapter introduced this study including the Islamic and Western perspectives of CSR. This chapter further discusses the Islamic perspective of CSR by reviewing some of the prior studies on the CSR concept, CSR in Islamic financial institutions, the CSR management process, internal and external factors that may influence CSR engagements, and the benefits, issues and challenges of CSR. At the end of this chapter, a summary of the gaps in the literature is presented.

The concept of CSR has evolved from the definition, problem and practice. In the academic literature, most of the previous studies on CSR have been done in Western countries to respond to their issues and problems (Thibos & Gillespie, 2011). However, it is argued that the Western CSR concepts are not able to explain the variations in the contextual settings which are influenced by the socio-economic, cultural and religious background (Mohammed, 2007; Shareef *et al.*, 2014). These contextual setting differences may influence how people and organizations define CSR and accordingly may influence how they manage these activities. The process of managing CSR activities is unique from one organization to another (Argandona & Hoivik, 2009; Hanke & Stark, 2009; Lindgreen *et al.*, 2009). In addition, the differences in CSR understanding and means of managing the CSR process and activities may be influenced by other internal and external factors.

In responding to these arguments, this study delineates the concept of CSR from the Islamic perspective and, therefore, starts with an overview of the conventional concept of CSR to examine the history, definition and theories that have used in discussing the notion. After highlighting the limitations in the conventional concept of CSR, the Islamic perspective of CSR is introduced as a practice to govern the relationship of human beings with Allah, other human beings and other creatures including the environment.

In order to understand the importance of CSR in the Islamic business environment, this study examines this issue in relation to Islamic financial institutions. The establishment of Islamic financial institutions as argued by many scholars is designed to fulfill religious, social and economic obligations to the Muslim society (*ummah*) (Dusuki, 2008a; Dusuki & Abdullah, 2007b; Farook, 2007; Sairally, 2013). Further, in response to the CSR management process, various studies in relation to the design, implementation and reporting of CSR are reviewed to gain insights into the process. Next, several factors, benefits as well as challenges of CSR engagements are further discussed in this chapter.

2.2 Conventional Concept of CSR

There are two major schools of thought in discussing the responsibility of businesses. The first approach is from theorists who claim that the only responsibility of business is to maximize profits (Friedman, 1970) within legal boundaries and with minimal ethical constraints. The second approach is from a group of theorists who advocate that the responsibility of business is not only to make profits for shareholders but also to be responsible for all the people who directly or indirectly engage with the business (Carroll & Shabana, 2010; Godfrey & Hatch, 2007).

The concept of social responsibility was discussed as early as the 1930s (Carroll, 1979) and continued to evolve after Howard R. Bowen's definitive book about the objectives and values of society that was published in 1953. The concept applies to everybody and also to businesses because people believe that business owners and managers have a social power and enough resources in terms of human and economic capabilities to help the community (Davis, 1967). Davis (1967) points out that businesses need to be socially responsible because the relationship between the modern business and society is so close, all the business activities will affect the society and the management teams need to act responsibly due to the separation of ownership and control. Furthermore, Wartick and Cochran (1985) also pointed out that the concept of social responsibility derived from two basic premises: the social contract and moral agency. In this context, companies are expected to help the government for the public good and to improve society.

In the academic literature, CSR has been defined as "the social responsibility of business [which] encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, p. 500) and as "stakeholder-oriented concept that extends beyond the organization's boundaries and is driven by an ethical understanding of the organization's responsibility for the impact of its business activities" (Maon, Lindgreen & Swaen, 2009, p. 72). Thus, from the Western point of view, CSR is about doing business sustainably, ethically and being responsible for the wellbeing of all business stakeholders. Some argue that CSR is a collective term for many social activities that companies do for sustainability and reputation (Porter & Kramer, 2006).

In today's business world, businesses not only exist for their own benefits (focusing mainly on the owners' or shareholders' profit maximization) but, to be sustainable, they have to embrace their various stakeholders by demonstrating social and environmental commitment (Carroll & Shabana, 2010). Principally, CSR involves doing good things for shareholders as well as for other stakeholders beyond the maximization of profits. However, the interpretation and meaning of CSR may be influenced by other factors such as religion, perception, values, knowledge, background, culture and environmental context (Dusuki & Yusof, 2008; Jamali *et al.*, 2009; Shareef *et al.*, 2014).

2.2.1 Underlying Theories in the CSR Discussion

There are several theories that are dominant in social accounting research, particularly in the discussion about the social responsibility and accountability of business such as stakeholder theory, legitimacy theory and the concept of accountability (Archel, Husillos, Larrinaga, & Spense, 2009; Deegan, 2002; Deegan *et al.*, 2002; Gray, Owen, & Maunders, 1988; Orij, 2010). All of these theories are based on the Western perspective and are widely used to explain the CSR meanings and practices including reporting and disclosure.

(i)   Stakeholder theory

Stakeholder theory is a management theory which directs how managers should act to conduct the business and how to manage stakeholders' relationships (Freeman, 1984; Freeman *et al.*, 2004). The theory suggests that when business entities fulfill the expectations of various stakeholders, they are able to improve the performance of the business (Freeman, 1984) and obtain legitimacy (Donaldson & Preston, 1995). In this sense, managers should identify specific business stakeholders and their issues, and the

role of managers and management is to handle stakeholders' expectations and demands (Donaldson & Preston, 1995). Thus, the responsibility of managers is not only to shareholders but also to other stakeholders such as employees, customers, suppliers, the community and the environment.

Furthermore, different groups of stakeholder have different views of how organizations should conduct their operations and have different abilities to affect an organization (Deegan, 2002). Therefore, companies may conduct and develop their business in accordance with the stakeholder theory for value creation and performance (Freeman *et al.*, 2004). The good management system of an organization is reflected in how its stakeholder relationships are managed (Waddock, 2009) by fulfilling the objectives of its primary stakeholders (shareholders and customers) and ensuring that the other stakeholders are also satisfied with the company's decisions (Carroll, 1989; Thorne *et al.*, 2008).

(ii)   Legitimacy theory

Legitimacy theory addresses the needs of companies to respond to the environmental pressures from political, social and economic forces that may affect the survival of the business through communication (Suchman, 1995), particularly social and environmental disclosures (Archel *et al.*, 2009; Deegan, 2002; Deegan *et al.*, 2002). The theory is commonly employed in relation to social and environmental disclosure (Archel *et al.*, 2009) to explain how corporate disclosure may be used by management to fulfill or change societal expectations (Deegan *et al.*, 2002). Suchman (1995, p. 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are

desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs, and definitions".

Usually, companies use various CSR communication channels such as annual reports, websites and media coverage to report their CSR initiatives to discharge their social contract or obligations with the society and other stakeholders. However, the expectations of society are not static but may change across time and thus, organizations should react to the new situation in order to maintain their legitimacy (Deegan *et al.*, 2002). In this context, CSR engagement may be utilized by companies to legitimize the existence and operations of the business.

(iii)   Concept of accountability

The accountability concept assumes that business organizations, through their managers, are accountable for what they have done and that people have a right to know about the business operations. According to Gray, Bebbington and Collison (2006, p. 334), accountability is "about the rights of society (or groups/stakeholders within society) and relates to the rights that emerge from the relationship between the accountable organizations (the accountor) and the accountee". Based on this concept, the purpose of CSR engagement is to discharge an organization's accountability, with the assumption that the organization has a social contract with society (Gray *et al.*, 1988). Further, Gray, Owen and Maunders (1988, p. 12) argue that when the social contract exists, "it becomes necessary to answer questions about the form that it takes and the social accountabilities that might be attached to it".

The nature of accountability lies in how this relationship (between an organization and its stakeholders including society) is established (Gray, Bebbington, & Collison, 2006; Owen, Gray, & Bebbington, 1997) and the rights to information that such relationships entail (Gray, Dey, Owen, Evans, & Zadek, 1997). Thus, CSR engagement and reporting are conducted to demonstrate that the organization has fulfilled its social responsibilities towards the society at large. Essentially, the Western concept of accountability primarily concerns how to govern human relationships and the accountability of the business towards its stakeholders including the environment. From this perspective, the accountability of companies towards their stakeholders may be discharged through communicating and reporting the information that is needed by those stakeholders (Gray *et al.*, 2006). Differing from the conventional perspective, the concept of accountability from the Islamic perspective is wider and more comprehensive as the accountability does not merely cover the relationship of man with other human beings and other creatures like animals, plants and the environment but also covers the relationship of man with God as man is ultimately accountable to Allah (Haniffa & Hudaib, 2010; Khan & Karim, 2010).

The theories discussed above are solely focused on the material, tangible performance and benefits and are not able to explain the religious or spiritual obligations of business entities towards the society and other stakeholders. For instance, stakeholder theory only discusses the management of stakeholders and their expectations to improve the performance of the company. The theory discusses the relationship of man with other human beings including society and the environment. Along these lines, legitimacy theory also discusses how these relationships should be maintained through social and

environmental disclosures to maintain the survival of the business. Both of these theories are based on the idea of the social contract between business and the community to fulfill the material and physical aspects of life only. Hence, these theories are not adequate to explain the Islamic concept of CSR which has a spiritual obligation to the Creator and to discuss how companies may discharge these spiritual obligations. The next section discusses the limitations of the conventional concept of CSR.

2.2.2   Limitations of the Conventional Concept of CSR

Most CSR studies are based on the Western perspectives, practices and values which are highly related to specific interests and the needs of certain groups and situations (Dusuki, 2008b). The Western economic, political and social context may differ from the Muslim context in regions such as Asia and the Middle East where the business practices of companies are influenced by religion and spiritual values (Dusuki & Yusof, 2008). Some CSR researchers argue that the Western CSR philosophy and frameworks (including the concepts and disclosure aspects) are limited in that they: (i) lack an understanding of moral or religious obligations (Haniffa, 2002; Parvez & Ahmed, 2004); (ii) lack a comprehensive global context based on the diverse socio-cultural and religious settings all over the world (Mohammed, 2007); (iii) fail to provide adequate ethical guidance (Dusuki & Abdullah, 2007a); (iv) are based on materialistic philosophy (Alhabshi, 1987; Haniffa, 2002); (v) lack a focus on the prioritization of social objectives (Darus *et al.*, 2013); and (vi) reflect humanistic theories (Dusuki, 2008b; Dusuki & Abdullah, 2007a) and secular ethics and morality (Darrag & E-Bassiouny, 2013).

Moreover, the Western CSR concept changes and evolves as it is based on empirical observations, theoretical constructs, humanistic arguments and has no connection with religious (spiritual) obligations. Some corporate players regard CSR merely as a marketing tool or strategic investment to enhance the sustainability of the business and not as part of the business culture or an authentic action that can improve the quality of life of community members. For instance, various CSR activities are conducted for the wealth maximization agenda of certain economically powerful groups of stakeholders, such as owners (shareholders), rather than to benefit the community at large (Gallego-Alvarez, Prado-Lorenzo, Rodriguez-Dominguez, & Garcia-Sanchez, 2010; Godfrey, Merrill, & Hansen, 2009).

In contrast, the concept of CSR from the Islamic perspective needs to be understood from the root and broader views because it is based on the *Al-Qur'an* and the *As-Sunnah*. These two main sources are the primary philosophical framework to manage the relationship of a man with his God (Allah), nature and other human beings. The relationship is governed under the concept of *Tawhid* (the unity of Allah) where Allah is the Creator, Owner, Absolute, and Ultimate (Quran, 39:44) and the *Shariah.* Therefore, the values and principles in Islamic philosophy since the Holy Prophet Mohammad (pbuh) 14 centuries ago serve as a foundation of the CSR notions from the Islamic perspective (Mohammed, 2007).

On this note, Williams and Zinkin (2010) conducted a study to compare the teaching of Islam on the CSR concept with the "Ten Principles" of responsible business proposed by the UN Global Compact. They propose that: (i) the scope of Islamic teachings is wide including human capital development and requirements of transparency in business

transactions; (ii) there is a clear boundary between what is permissible (*halal*) and what is forbidden (*haram*); (iii) there is an explicit enforcement mechanism in the *Shariah* and also community enforcement; and (iv) the individual is accountable for unethical behavior in the Hereafter. Thus, it shows that the Islamic view of CSR encompasses a comprehensive understanding on how the relationships between religion, business and society should be managed to strike a balance between the material, moral and spiritual aspects.

2.3   Islamic Concept of CSR

Islam provides a universal moral system where everything is morally right in Islam if it leads to individual or social wellbeing and is morally wrong if it leads to harm to others (as well as to the self). The Islamic ethical system offers honesty, fairness, morality, integrity, full commitment and brotherhood to foster a culture of balanced wellbeing and sharing. The system anticipates Islam's concept of man in relation to God, his own self, the universe and the society (Hanafy & Sallam, 2001). All Muslims have total submission to the Creator, Allah, should behave in a balanced way and have a freedom of choice; hence, they should be responsible for their deeds (Naqvi, 2001). In this sense, religious belief *(Tawhid)* requires Muslims to take care of their deeds and action because everything in this life will be taken into account on the Day of Judgment (*akhirah*). Thus, in developing and managing CSR initiatives, Muslim business players should ensure that the entire process of CSR management is in accordance with the *Shariah* principles and guidelines.

Moreover, based on the *Al-Quran* and the *Hadith*, Hanafy and Sallam (2001) introduce six major ethical principles of Islam: (i) truthfulness (*siddiq*), (ii) trust (*amanah*), (iii) sincerity (*ikhlas*), (iv) brotherhood (*ukhuwwah*), (v) science and knowledge, and (vi) justice (*adl*). All of these ethical axioms and principles prescribe that the moral obligations of Muslims not only cover the relationship between man and other human beings and the environment but also cover the most important relationship which is the relationship between man and Allah (*hablun min Allah* and *hablun min an-nas*). Further, these ethical principles are used to explain the concept of CSR. Farook (2007) indicates three major foundations of the concept, which are: (i) vicegerent (mankind is the representative of Allah); (ii) divine accountability (each individual is accountable for his actions on the Day of Judgment); and (iii) enjoining good and forbidding evil by promoting social justice.

2.3.1 Several Paradigms in the Islamic View of CSR

As mentioned earlier, the concept of CSR is derived from other concepts that have been enjoined in the *Quran* such as fairness and justice (Quran 4:135; 5:8–9; 6:152; 16:90; and 38:26), brotherhood (Quran 49:13; 3:103; and 59:10), trustfulness (Quran 3:95; 15:64; and 9:119), sincerity and integrity (Quran 98:5; and 107:4–7), responsibility (Quran 4:85; 74:38; 13:11; 10:109; and 6:165), accountability (Quran 99:7–8; 53: 38–41; 3:188; and 18:103–106), trust (Quran 4:58; 8:27; 2:283 and 81:19–21), respect of the law, and cooperation (*ta'awun*) (Quran 5:2). These are the elements to explain the CSR notion in Islam. Indeed, Platonova (2013) indicates that CSR in the Islamic perspective is an endogenous concept which requires companies to fulfill not only the material interests of stakeholders but also entails moral obligations.

Specifically, there are several paradigms and concepts that have been used by prior studies in explaining the Islamic concept of CSR: (i) *Tawhid* paradigm (Muhamad, 2007; Muwazir *et al.*, 2006); (ii) *Taqwa* paradigm (Dusuki, 2008b); (iii) the concept of *maqasid Shariah* (the *Shariah's* objectives) and *maslahah* (the public interest) (Darrag & E-Bassiouny, 2013; Darus *et al.*, 2013; Dusuki & Abdullah, 2007a; Mohd Nor, 2012; Yusof & Bahari, 2011); (iv) four ethical axioms (unity, equilibrium, free will and responsibility) (Mohammed, 2007); (v) mandatory and recommended forms of Islamic CSR (Farook, 2007); (vi) the extended model of Carroll (1979) from the Islamic perspective (Khurshid *et al.*, 2014) and (vii) the application of *maslahah* (public interest) and importance of social capital (Yusof & Bahari, 2011).

While these prior studies have provided wide and comprehensive understanding and framework of CSR by integrating the religious and moral obligations with other social obligations such as economic, legal, ethical and philanthropic responsibilities, most of these studies are conceptual in nature (Darus *et al.*, 2013; Dusuki, 2008b; Dusuki & Abdullah, 2007a; Khurshid *et al.*, 2014; Mohd Nor, 2012; Muhamad, 2007; Muwazir *et al.*, 2006). Very little research has been conducted to empirically examine the understanding of Muslim business players about the concept of CSR and to observe the extent to which these initiatives are managed and implemented as guided by *Shariah*.

Under the concept of *Taqwa* (God consciousness), a Muslim strongly believes and understands the role of managing and developing the world in accordance with the *Shariah* (Dusuki, 2008b). It will give a balanced view of material wellbeing and moral spiritual value (e.g. Quran 51:56; 95:4; 17:70 and 6:165). Dusuki (2008) identifies four elements in the *Taqwa* paradigm framework: (i) human dignity; (ii) free will; (iii)

equality and rights; and (iv) trust and responsibility. He argues that there are five levels in the CSR continuum ranging from irresponsible, minimalist, apathy, strategic and *Taqwa*-centric. Moreover, in the *Taqwa* dimension, CSR is not just a strategy or instrument to increase the organization's image or long-term financial performance and legitimize the existence of the organization as proposed by the Western CSR concept but encompasses a wide meaning by assuming organizations are a group of individuals, who perform the roles and responsibilities as servants and vicegerents of Allah at all times and situations (Dusuki, 2008b; Zinkin, 2007).

A review of the literature on the Islamic concept of CSR reveals some limitations in that there seems to be an overemphasis on either the *Shariah* framework (or derivative concepts from *Shariah* such as *maqasid Shariah* and *maslalah ammah*) (Darus *et al.*, 2013) or on the *Tawhid* paradigm (Muwazir *et al.*, 2006). However, this study suggests these two paradigms (*Tawhid* and *Shariah*) should be integrated and discussed together to offer a more holistic discussion on the concept of CSR and the CSR management process. Other derivative concepts such as *maqasid Shariah* (objectives of *Shariah*), *maslahah* (public interest) and accountability (*masuliyyah*) can be adapted and used as a conceptual framework for assessing the commitments of an Islamic bank to engage and manage its CSR initiatives. This commitment is obligated to maintain a good relationship with Allah and other human beings (*hablun min Allah* and *hablun min an-nas*) as well as with the environment (*ihsan*). Further discussions on the above concepts are presented in Chapter 3.

2.3.2 Conceptual Definition of CSR from the Islamic Perspective

The idea of social responsibility subsists in most religions and philosophies of the world (Davis, 1967). Islam urges its followers to establish socio-economic justice and to be socially responsible. According to Haniffa and Hudaib (2002, p. 16), the social aspect of Islam is based on the concepts of *Tawhid* (unity), *adalah* (justice), *ummah* and *maslahah*. Through these concepts, the social obligations are a collective responsibility (*fard kifayah*) among Muslims that promotes justice to the benefit of *ummah*. Islam encourages its followers to focus on charity, generosity and philanthropy (Afridi & Navaid, 2006). Islam advises Muslims to treat other people kindly, to help the poor and needy and to do all kinds of good deeds at all times, as mentioned by Allah (SWT) in *Surah Al-Baqarah*, verse 274:

> Those who spend [in charity] their wealth [in Allah's Cause] by night and day, in secret and in public, they shall have their reward with their Lord. On them shall be no fear, nor shall they grieve.
>
> (Quran 2:274)

Islam seeks a balance in Muslim life by promoting saving, spending and voluntary giving to create an ideal community (Alhabshi, 1987). Hence, the social responsibility and justice form a basic foundation in the Islamic society (Mohammed, 2007) in which Islam urges individual and organizations to sacrifice and spend their wealth in all situations, in prosperity or in adversity (Quran 3:133–134) as well as in profitable or less profitable times and only expecting the reward from Allah (Dusuki, 2008b).

Furthermore, Allah guides Muslim about the characteristics of social responsibility in the following verse:

> It is not righteousness that you turn your faces towards East or West; but it is righteousness - to believe in Allah and the Last Day and the Angels, and the Book, and the Messenger; to spend your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask; and for freeing of captives, to be steadfast in prayer, and practice regular charity; to fulfill the contracts which you made; and to be firm and patient in pain [or suffering] and adversity and throughout all periods of panic. Such are the people of truth, the God-conscious.
>
> (Quran 2:177)

Further, Islam encourages Muslims to conduct business in accordance with the commands of Allah and *Shariah* and to see it is a part of worship (Bank Islam Malaysia Berhad, 1994). Engaging in business activities is a form of obedience to Allah and serves a socially useful function (Rice, 1999). Allah enjoins in *Surah As-Saff*, verse 10-11:

> O You who believe! Shall I guide you to a trade that will save you from a painful torment? (10) That you believe in Allah and His Messenger [Muhammad SAW], and that you strive hard and fight in the Cause of Allah with your wealth and your lives that will be better for you, if you but know! (11)
>
> (Quran 61:10-11)

Alhabshi (1987, pp. 14–15) lists six prerequisites of business players' attitudes in accordance with the Islamic ethical principles: (i) have the proper intention; (ii) set the objective of performing the *fard kifayah*; (iii) be mindful of Allah; (iv) remember Allah even while doing business; (v) practice moderation; and (vi) avoid all the forbidden and the doubtful. If a Muslim businessman conducts his business with honesty and follows all the Islamic business conduct guidelines, he deserves to receive rewards not only in this life (*dunnya*) but also in the Hereafter (*akhirat*) (Quran 62:10). The Holy Prophet Muhammad (pbuh) was also a successful businessman.

Hence, the goal of the Muslim businessman is not only making profits but to be useful to the society and environment in which he conducts the business (Basah & Md Yusuf, 2013; Dusuki, 2008b). In doing so, Islam prescribes specific guidelines and standards for managing businesses based on the Islamic jurisprudence (*fiqh*) of lawful (*halal*) and unlawful (*haram*) activities. It will help to define ethically desirable forms of business, specify the modes of transactions (desirable and undesirable) and prescribe the general moral and ethical rules of business conduct (Mohammed, 2007).

The concept of lawful and unlawful actions reflects the features of social responsibility in every aspect of the business transactions. For instance, to get legitimate (*halal*) earnings, a Muslim businessman should conduct the business in legitimate (*halal*) ways through mutual consent among the parties involved, performing business transactions honestly (Quran 33:70; 11:85 and 83:1–6), truthfulness, generosity and leniency, honoring and fulfilling business obligations (*uqud*) (Quran 5:1; and 2:282) and fair treatment of workers (Mohammed, 2007). On the other hand, the unlawful (*haram*) business practices violate the *Shariah* principles and should be avoided such as giving or receiving interest (*riba*) (Quran 30:39; 3:130–132; and 2:275–281), *maisir* (gambling) (Quran 2:219, and 5:90–92), dealing in prohibited items (e.g. pork, alcohol, drugs and so on) (Beekun, 1997), sales of *Al-Gharar* (uncertainty, risks, speculation), pornography, price-fixing practices or price manipulation, hoarding of wealth (Quran 3:180; 4:37), and cheating and fraud in business transactions (Quran 83:1–4; and11:85) (Ahmad, 2001; Beekun, 1997; Mohammed, 2007). In a *Hadith* of Prophet Muhammad (pbuh): "Allah and His Apostle made illegal the trade of alcohol, dead animals, pigs and idols" (Sahih Al-Bukhari).

In exercising the Islamic business practices on social responsibility, the Muslim businessman has to be fair in open market competition, treating all stakeholders including the customers, shareholders, employees, suppliers, debtors, local communities and natural environment equally and fairly (Beekun, 1997). This has been stressed in many *Quranic* versus (e.g. Quran 17:35; 4:58; 4:149) and in the *Hadith*. For instance, the Holy Prophet Muhammad said that: "He will be a witness against one who employs a laborer and gets the full work   done by him but does not pay him his wages" (Sahih Al-Bukhari).

Therefore, the social responsibility of Islamic organizations is not just a matter of legal obligations or a matter of fulfilling the material rights of shareholders but it is a spiritual and moral obligation that secures the existence of the business as well as the society (Parvez & Ahmed, 2004). Since the objectives of Islamic business entities are based on the objectives of *Shariah*, their CSR objectives and practices also should be derived from the Islamic law and principles (*Shariah*) as revealed in the *Quran* and *As-Sunnah*. According to Muwazir, Muhamad and Nordin (2006), the main objectives of social responsibilities are to demonstrate responsibility to Allah, human beings and the environment. Further, CSR in Islam aims to promote social justice as well as to obtain *barakah* and *al-falah* in this life and in the Hereafter (Muhamad, 2007).

Dusuki and Abdullah (2007, p. 34) conceptualize CSR from the Islamic perspective as a moral and religious initiative based on the belief that a corporation should consider other responsibilities such as moral and social responsibilities for the wellbeing of various stakeholders such as consumers, employees, shareholders and local communities, rather than solely focus on profit maximization. In other words, a Muslim company has three

main responsibilities, which are: (i) moral/religious; (ii) social; and (iii) economic responsibilities (Chapra, 1992).

According to the AAOIFI, Islamic financial institutions need to fulfill five responsibilities in carrying out all social activities: religious, economic, legal, ethical and discretionary responsibility (*Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 2004). In this sense, (i) religious responsibility refers to the obligation of Islamic financial institutions to obey the laws of Islam in all dealings and operations; (ii) economic responsibility refers to the obligation to be financially viable, profitable and efficient; (iii) legal responsibility refers to the obligation to respect and obey the laws and regulations of the country of operation; (iv) ethical responsibility refers to the obligation to respect the mass of societal, religious and customary norms which are not codified in law; and (v) discretionary responsibility refers to the expectation from stakeholders to perform a social role over and above religious, economic, legal and ethical responsibilities (*Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 2004, p. 71–72).

The additional responsibility towards religious obligations in the AAOIFI standards prescribes the connection between the concept of *Tawhid* and *Shariah* in the concept of CSR. The religious responsibility requires companies to comply with all *Shariah* guidelines in conducting business activities and to fulfill their social and moral responsibilities by engaging in community development activities to alleviate poverty as well as conducting religious programs for the wellbeing of the society (Chapra, 1992; Khan & Karim, 2010; Muwazir *et al.*, 2012; Yusof & Bahari, 2011).

Further, Darus *et al.* (2013) classify CSR policies and practices into two categories, namely, obligatory (essential) and recommended (discretionary) activities for the betterment of *ummah*. They suggest that these CSR policies and practices should encompass four CSR dimensions, as proposed by Bursa Malaysia's CSR Framework, namely, community, workplace, environment and the marketplace. However, the present study argues that the religious dimension should be considered as one of the dimensions in the CSR policies and practices because the element of faith is being prioritized in the *maqasid Shariah* and *maslahah*.

As mentioned earlier, *zakat* and the prohibition of usury are two types of practices that promote the social justice agenda among Muslim business players. The business *zakat* is obligatory for all types of businesses as long as Muslims have interests in that business. The payment and taking of usury is prohibited whether it is directly or indirectly involved in any form because it contradicts the culture of brotherhood (*ukhuwwah*) and sympathy. Thibos and Gillespie (2011) argue that CSR practices in the Arab world are related to *zakat* practices in several aspects: (i) the selection of targeted recipients; (ii) both practices are referred to as philanthropic actions; (iii) reporting; and (iv) philosophies (not strategic initiatives).

2.3.2.1   Paying Business Zakat

Zakat is one of the Five Pillars in Islam and is mentioned 58 times in the *Al-Quran* (Abu Bakar & Abd Ghani, 2011). The obligation of organization on the business *zakat* is mentioned in Quran, *Surah Al-Baqarah*:

O you who believe! Spend of the good things which you have [legally] earned, and of that which We have produced from the earth for you, and do not aim at that which is bad to spend from it, [though] you would not accept it save if you close your eyes and tolerate therein. And know that Allah is Rich [Free of all wants], and Worthy of all praise.

(Quran 2:267)

In the *Hadith* of the Holy Prophet Muhammad: "The Apostle of Allah (pbuh) used to order us to pay the *sadaqah* (*zakat*) on what we prepared for trade" (Abu Dawud). The *zakat* on business has been defined as an "obligatory contribution assessed based on business assets owned by an entity that satisfy certain conditions and is to be distributed to specified categories of beneficiaries" (MASB Technical Release i-1, 2006, p. 6). In other words, *zakat* is a contribution of a proportion of wealth for the use of the poor and needy as purification of the balance property and showing care to other Muslims (brotherhood) (Quran 9:103). There are two main types of *zakat*: (a) individual *zakat* (*zakat fitr* – performed at the start of *Ramadhan* and ending before the *eid'fitr* prayer); and (b) *zakat* on wealth (from agricultural produce, reared animals, business, savings, gold, silver, employment income and professional income).

The objectives of the *zakat* are to develop balanced socio-economic growth and to purify one's soul and wealth to gain Allah's blessings (Quran 2:110) and also to reduce the poverty rate in the Muslim community (Ab Rahman, Alias, & Syed Omar, 2012; Abu Bakar & Abd Ghani, 2011; Kaslam, 2011). As compared to tax, the *zakat* has spiritual connotations (Gambling & Karim, 1986; Haniffa & Hudaib, 2002; Md Ramli, Ahmad, Wahid, & Harun, 2011) whereby Muslims believe it has a direct impact and relationship between not only man and Allah but also between man and his society.

Abdul Rahman and Awang (2003) indicate that many Malaysian companies are ignoring the obligation to pay the business *zakat* but the awareness on this issue has shown some improvements. According to their study, several reasons can be identified such as: (i) lack of understanding and insufficient knowledge on the religious obligation to pay the *zakat*; (ii) the businesses are looking for the tangible benefits (like financial returns) as a result of paying the *zakat*; and (iii) the businesses feel it is onerous to pay two types of levy, namely, the corporate tax and *zakat* on business (Abdul Rahman & Awang, 2003). The rate of *zakat* is 2.5% on *zakatable* business assets (*zakat* base) which are subject to *nisab*. Before the *zakat* on business is made obligatory, there are five conditions must to be fulfilled: (1) Muslim; (2) full ownership; (3) intention to do business; (4) *haul* (minimum period); and (5) *nisab* (minimum amount). In calculating the *zakat* on business, there are two methods:

a. Growth model (*urfiyyah*) = Owner's equity + long term liability - fixed assets - intangible assets +/- adjustments x 2.5% x Muslims ownership shares

b. Working capital model (*syar'iyyah*) = Net current assets (current assets - current liabilities) +/- adjustments x 2.5% x Muslims ownership shares

There are eight categories of the beneficiaries *(asnaf)* that have been mentioned in the *Quranic* verse:

> *As-Sadaqat* [here it means *Zakat*] are only for the *Fuqara'* [poor], and Al-*Masakin* [the poor] and those employed to collect (the funds); and to attract the hearts of those who have been inclined [towards Islam]; and to free the captives; and for those in debt; and for Allah's Cause [i.e. for *Mujahidun* - those fighting in the holy battle], and for the wayfarer [a traveler who is cut off from everything]; a duty imposed by Allah. And Allah is All-Knower, All-Wise.
> (Quran 9:60)

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In Malaysia, the collection and distribution of the *zakat* fund is managed and governed by 14 *zakat* authorities or institutions under the supervision of the State Islamic Religious Councils. Some states including Selangor, Wilayah Persekutuan Kuala Lumpur and Pulau Pinang have privatized their *zakat* institutions. These *zakat* institutions are responsible for promoting socio-economic objectives through good *zakat* management processes especially in distributing the *zakat* to the *asnaf* using more proactive mechanisms (Ab Rahman *et al.*, 2012; Abu Bakar & Abd Ghani, 2011) and should be governed as a social institution (Kaslam, 2011). These institutions should be managed effectively and efficiently to enhance the confidence and satisfaction of Muslim *zakat* payers (Abd Wahab & Abdul Rahman, 2012; Abu Bakar & Abd Ghani, 2011; Lubis, Yaacob, Omar, & A. Dahlan, 2011; Md Hassan, Mohd Nor, & Mohd Rom, 2012) and to strengthen the Muslim socio-economic development (Kaslam, 2011).

Conversely, several studies state that the *zakat* institutions face challenges in the process of distributing the *zakat* fund, due to: (i) various responsibilities shouldered by the *zakat* institutions (Lubis *et al.*, 2011; Md Hassan *et al.*, 2012); (ii) ineffectiveness and inefficiency of the distribution method such as the selection of the recipients (*asnaf*) and the *zakat* application process (too long, bureaucratic and geographical problems) (Ab Rahman *et al.*, 2012; Lubis *et al.*, 2011); (iii) attitudes of *asnaf* towards giving a full commitment to the *zakat* distribution program (Md Ramli *et al.*, 2011); (iv) lack of staff in these institutions (Lubis *et al.*, 2011) (v) lack of proper governance mechanisms (Abd Wahab & Abdul Rahman, 2011); and (vi) information asymmetry (Lubis *et al.*, 2011).

Therefore, these institutions should consider additional approaches or mechanisms to distribute the *zakat* in an effective and efficient manner such as: (i) localize the process of distribution through mosques and local committees at the district level (Lubis *et al.*, 2011; Wahid, Abdul Kader, & Ahmad, 2011); (ii) collaborate with micro-finance institutions to provide business and capital assistance to the recipients (*asnaf*) to start a business (Md Hassan *et al.*, 2012); (iii) provide self-sustained mechanisms (monetary capital and equipment) to start a business (Abu Bakar & Abd Ghani, 2011; Md Ramli *et al.*, 2011); (iv) let the *zakat* payer organizations to distribute their own business *zakat* (Ab Rahman, 2011); (v) establish long-term distribution programs such as capacity building (education, training or courses to equip them with certain skills and knowledge) (Ab Rahman *et al.*, 2012; Kaslam, 2011); (vi) employ geographical information system technology (Lubis *et al.*, 2011); and (v) improve their transparency and reporting practices (Kaslam, 2011). All of these initiatives are proposed to help the *zakat* institutions to distribute the *zakat* effectively especially in the process of identifying the right potential recipients and to provide sustainable contribution programs that can produce more entrepreneurs among the *asnaf* (Ab Rahman *et al.*, 2012; Abu Bakar & Abd Ghani, 2011; Md Hassan *et al.*, 2012; Md Ramli *et al.*, 2011).

There are two concepts of the *zakat* distribution: (i) short-term distribution (*kifayah al Sanah*); and (ii) long-term distribution (*kifayah al Umr*). The method or form of distribution and also the purpose of the distribution are important to achieve the objective of *zakat* in helping the poor and needy (*asnaf*) to become economically viable if the *zakat* is provided in the sustainable form (monetary capital and equipment) (Abu Bakar & Abd Ghani, 2011; Md Hassan *et al.*, 2012; Md Ramli *et al.*, 2011). Among the forms of

distributions are financial support, providing education to their children, establishing schools, providing vocational training, providing capital monetary and equipment to start the business, building and renovating of homes, supporting their medical treatment and health care and many more.

2.4 CSR and Islamic Financial Institutions

The key features of Islamic banking are the profit and risk sharing between banks and customers and all activities and transactions are in accordance with the *Shariah* principles. Haniffa and Hudaib (2007) identify five distinctive characteristics of Islamic banks in comparison with conventional banks: (i) the underlying philosophy and values; (ii) providing products and services that are free from interest (*riba*); (iii) the adherence to Islamic-acceptable ideals; (iv) the focus on social goals and development; and (v) the role of the *Shariah* Supervisory Board to review and verify the banks' activities, products, services and decisions. Muslim scholars recognize that Islamic financial institutions have two goals, namely, financial goals and social goals (Dusuki, 2008a, 2008b; Dusuki & Abdullah, 2007a; Farook, 2007; Haniffa & Hudaib, 2007; Maali *et al.*, 2006; Sairally, 2013) and between these two goals, there is a harmonious zone of sustainability (Dusuki, 2008b; Maali *et al.*, 2006; Mohammed, 2007).

In addition, Farook (2007) claims that Islamic financial institutions have to be socially responsible for two interrelated reasons: to fulfill a collective religious obligation (*fard kifayah*) and to fulfill the expectations of Muslims that the bank will hold an exemplary position as a Muslim financial provider in society (encouraging other people and organizations to promote social justice). Farook (2007) also claims that, in conducting the CSR initiatives, Islamic banks have a huge capability in terms of financial and human

resources to conduct these social activities efficiently as compared to individuals' efforts or charitable organizations with limited sources of funds and manpower. Further, Mohd Nor (2012) indicates that CSR influences the overall operations of Islamic banks at the operational and management levels. At the operational level, Islamic banks have to ensure that their products, policies and activities are in accordance with *Shariah* guidelines and principles and at the managerial level, the banks have to make a social commitment by paying *zakat*, conducting charitable and philanthropic activities for community development as well as taking care of the environment (Mohd Nor, 2012).

Islam emphasizes social justice through the concept of brotherhood. Performing the *zakat* and providing the *qard* [5] fund are two practices of the banks that can demonstrate the social responsibility for the benefit of society. The *qard* fund provides interest-free loans to individuals for socially beneficial purposes (Maali *et al.*, 2006) and is considered as a social contribution towards the society (Muwazir *et al.*, 2006). Charging interest on loans is prohibited (Quran 39:161) but charging the fee for deferred payments is allowable. The interest on loans has an element of *riba* because of unequal exchanges or unfair advantage as well as the risk and reward not being properly balanced.

Furthermore, Muslims expect and demand Islamic banks to actively discharge their social obligations towards their various stakeholders (Dusuki, 2008a; Maali *et al.*, 2006; Mohd Nor & Asutay, 2011) because the banks have an ethical identity and their business philosophy is highly related to religion (Basah & Md Yusuf, 2013; Dusuki, 2008a;

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[5]   The *Qard* fund is a loan that is to be repaid, depending on the ability of the borrower, without any interest or charges or share in the profit or loss of the business.

Farook, 2007; Farook, Hassan, & Lanis, 2011; Haniffa & Hudaib, 2007; Hassan & Harahap, 2010; Platonova, 2013; Thibos & Gillespie, 2011). Al-Mograbi (1996) as cited in Maali *et al.* (2006) suggested that Islamic banks have two important roles in society: religious and financial. In the religious aspect, the banks should be responsible for complying with the *Shariah Islamiyyah* principles by setting an example to the community that monitors their activities. In respect to the financial role, the banks use their large funds and revenues to conduct social activities. Hence, in conducting the business, an organization should contribute back to the community as well as the organization's other stakeholders.

In conforming with the *Shariah* principles, Islamic banks establish a *Shariah* Supervisory Board which acts as an internal control mechanism. The main objectives of establishing the *Shariah* Supervisory Board are to provide assurance and verification that all business activities and transactions are in accordance with the *Shariah* principles. Specifically, the role of the *Shariah* Supervisory Board is to: (1) issue a report (the "*Shariah* Supervisory Report") certifying that all business operations adhere to the *Shariah*; (2) advise the board of directors and management team on *Shariah*-related matters; (3) review and endorse policies and guidelines on the *Shariah*-related issues; (4) advise the bank on the *zakat* computation and distribution; (5) endorse and validate the proposal of new products and services, marketing advertisements, product guidelines, and all documentations on the bank's products, services and activities. The *Shariah* committee or department at the bank will also help the *Shariah* Supervisory Board to monitor and assess the bank's activities and transactions as well as designing the CSR initiatives as a social contribution especially to the local community.

As stated earlier, Islamic banking and finance is a partnership between customers (depositors) and the institution, where the risk and reward are equally distributed through profit sharing. The customers deposit the money to the institution and then the institution reinvests the money to the profitable and *Shariah* investments based on its judgment. In parallel to this, the institution needs to engage in social activities to create public trust to deposit their money and this is among the criteria in customers' decision-making process (Dusuki, 2008a) regarding where to place their money. Therefore, the issue of CSR is crucial for Islamic banks to sustain their business in this highly competitive industry (Dusuki, 2008a).

According to a survey conducted by the Dinar Standard and Dar Al Istithmar in collaboration with the AAOIFI on social responsibility at 29 Islamic financial institutions in 19 countries across the world in 2009, most Islamic financial institutions (76% to 100%) have taken substantial measures and engage in most aspects of social responsibility such as client engagement, employee welfare, charity, responsible investments and *zakat/waqf* management (Farook & Shikoh, 2010). The report also reveals that Islamic financial institutions place a high priority on charitable activities but retain their traditional approach, giving significant attention to social and development impact investment and becoming increasingly aware of environmental issues. The lack of commitment to environmental issues among Islamic financial institutions may be due to the hypothesis that Muslim societies are more focused on satisfying basic human needs compared to the environment (Farook & Shikoh, 2010).

Another survey of Islamic banking was conducted by Dusuki (2008) on the philosophy and objectives from the stakeholders' views. Several stakeholder groups of the Islamic banks were identified: customers, depositors, local communities, Islamic banking managers, employees, regulatory officers and *Shariah* advisors. The findings indicated that Islamic banking should uphold social objectives and promote social values to all stakeholders. That study gained valuable insights into the stakeholders' views on Islamic banking objectives but failed to get the view from the top management level of the banks, yet the opinions of CEOs or other executives on social issues are important and usually represent the views from all staff in the organization (Wood, 1991; Wood, 2007).

Mohd Nor and Asutay (2011) investigated the perceptions and expectations of Islamic banks' customers towards CSR practices and their contributions to society's development. The findings of that study suggested that customers of Islamic banks perceive that CSR is aligned with the Islamic banking concept and are aware of the CSR engagements of the banks but they fail to link the idea of CSR with other social agendas particularly in developing and improving the wellbeing of society in the future as well as reducing the poverty rate (Mohd Nor & Asutay, 2011). In this sense, the Islamic banks should make long-lasting or long-term contributions through the CSR programs such as providing capital assistance to run a business and establishing a foundation (non-profit philanthropic organization) to manage relevant CSR programs in the future. It is believed that these two mechanisms can provide high impacts to the recipients and enhance their quality of life in the long run (Ab Rahman, 2011; Ab Rahman *et al.*, 2012; Abu Bakar & Abd Ghani, 2011; Morris & Biederman, 1985).

Mohammed (2007) conducted a study in several Islamic banks all over the world to assess the Islamic perspective of CSR. The study was based on the four ethical axioms of unity, equilibrium, free will and responsibility (Naqvi, 1981) to explore the extent of consistency of such axioms with the current practices (Mohammed, 2007). The key findings of the survey revealed that: (i) most Islamic banks were aware of and practiced CSR extensively as guided in the ethical axioms; (ii) the practices were driven by legal requirements in adherence with the *Shariah* and the purpose (*maqasid Shariah*) was for the wellbeing of society despite the banks not fully understanding the concept of CSR and the lack of an Islamic CSR framework; and (iii) the implementation of CSR initiatives was not organized and was just on an ad-hoc base (Mohammed, 2007). However, in the present study, CSR is viewed from the *Tawhid* and *Shariah* paradigm and other concepts such as *maqasid Shariah* and *maslahah ammah* as well as accountability (*masuliyyah).* In addition, Mohammed's (2007) study was designed to assess and understand the Islamic concept of CSR as compared to the present study which focuses on the CSR management process to develop a guideline for managing CSR initiatives.

Another study on the CSR engagements of Islamic banks was done by Sairally (2013). This study was based on the CSR model of Carroll (1979) and Wood (1991) and the results showed that Islamic banks perceived CSR as a peripheral activity and concentrated more on the voluntary charitable and philanthropic activities. However, the banks acknowledged the role of CSR in Islamic banking but failed to integrate CSR as part of their business agenda and manage it efficiently (Sairally, 2013). Thus, in order to optimize the benefits of CSR, Islamic banks may need to understand the concept of CSR

from the *Tawhid* and *Shariah* paradigm to improve the wellbeing of Muslim community. Essentially, the spirit of Islamic banking is closely related to the objectives of *Shariah* (*maqasid Shariah*).

Thus, Islamic banks are not only responsible to run the business in a profitable way but also have to fulfill religious and social responsibilities toward society (Basah & Md Yusuf, 2013; Dusuki & Abdullah, 2007a; Platonova, 2013; Sairally, 2013). Further, the objectives of the Islamic banks' establishment are closely related to religious and spiritual obligations through the *maqasid Shariah* to optimize the human wellbeing (Basah & Md Yusuf, 2013; Platonova, 2013; Sairally, 2013). This concept is different from the Western philosophies of conventional banks whereby they are more concerned with on material achievements and performance.

Furthermore, the Islamic banks have a range of stakeholders and the issues pertaining to each group of stakeholder are varied. To reduce the conflict between the stakeholders, the banks have to demonstrate the CSR commitments through communication and reporting and conduct the business in accordance with the *Shariah* principles. In order for the banks to manage these commitments systematically, they have to identify the factors (internal and external factors) that may influence CSR engagements. The next section discusses these factors.

2.5   Factors Influencing CSR Engagements

There are several factors that influence the CSR engagements. These drivers can be external and internal to the organization. The degree of influence may depend on the nature and type of the business, its location, and the perceptions and understanding of the stakeholders towards CSR.

2.5.1   External Driving Factors

Before the CSR initiatives are planned, the organization should be aware of and sensitive about the impact of current developments in the environment (Werre, 2003) and conduct environmental scanning to assess the external information that may influence the decision-making process of CSR engagement. Environmental scanning is a process of identifying, collecting and translating external information such as emerging issues, situations and potential pitfalls that may influence the future of organizations in order to improve responsiveness and flexibility in the decision-making process (Albright, 2004). Albright (2004) suggests that environmental scanning is used to evaluate an organization's strengths and weaknesses in response to external threats and opportunities strategically. These external influences may include political, social, economic, regulatory (laws, regulations, guidelines and standards requirements), and technological factors (Albright, 2004; Maon *et al.*, 2009), the business environment or industry/market such as business risks, changing marketing needs and business competition (Khoo & Tan, 2002) as well as the stakeholders' expectations (Jamali & Mirshak, 2007; Katamba *et al.*, 2012; Virakul, Koonmee, & McLean, 2009).

Furthermore, the government should offer more initiatives and incentives to promote the CSR engagement. For instance, the establishment of the *Mengubah Destini Anak Bangsa* (Fund to Change the Destiny of the Nation's Youth) by the Malaysian Government could encourage more corporate entities to take part in the development of society. Hine and Preuss (2009) also indicate that the UK Government has been perceived by managerial groups as a key driver to promote CSR initiatives. The companies may need to understand the political climate by supporting the government's aspiration to improve the wellbeing of society and to fulfill the demands of various stakeholders.

Furthermore, pressure from various stakeholders such as NGOs, consumers and government bodies may influence CSR engagements among the Malaysian business players (Saleh *et al.*, 2010; Thompson & Zakaria, 2004; Wong & Ahmad, 2010) to see the benefits and encourage them to further improve. Their pressure is not as intense as in developed countries because the level of CSR awareness among stakeholders in Malaysia is still low (Amran & Siti Nabiha, 2009). The government as a trusted body by the public can create pressure on companies to report and practice CSR (Amran & Devi, 2008; Mohd Ghazali, 2007; Said, Hj Zainuddin, & Haron, 2009; Thompson & Zakaria, 2004). For instance, companies in tendering for government contracts need to report the CSR activities in their annual reports (Anwar, 2007).

As stated by Amran and Devi (2008), a company which has a significant amount of government shareholdings and depends on the government tenders and contracts tends to disclose more CSR information in its annual reports. Hence, the government plays some role in influencing the CSR engagements to assure the government's aspirations are aligned with the company's strategy to maintain trust and enhance the company's image

(Amran & Devi, 2008; Haniffa & Cooke, 2005). The government should look at positive incentives rather than penalties and make sure all laws and regulations pertaining to CSR are enforced. Another initiative is reducing the corporate tax when companies have demonstrated a certain amount of spending in the CSR activities. In addition, Said *et al.* (2009) argue that government ownership and audit committees positively influence the level of CSR disclosure in Malaysian publicly listed companies.

In addition, Dusuki (2008b) indicates several drivers that force the CSR engagement: (a) market pressure (customers, employees or capital markets); (b) regulatory pressure on reporting requirements; (c) power of communications to increase CSR awareness among stakeholders; and (d) competitive advantage as a motivator to be involved in the CSR activities. Consumers are also sensitive to the CSR engagement and can create pressure on organizations (Dusuki, 2008a; Yam & McGreal, 2010). For instance, Yam and McGreal (2010) state that house buyers expect a socially-responsible developer to provide more CSR features such as green spaces, recreational parks and facilities, security features and good infrastructure and the readiness to pay for such features is still uncertain because they are more sensitive about the house price. Therefore, in the present study, the recipients of the CSR initiatives were interviewed to gain their perceptions on such initiatives. Their feedback on CSR initiatives should be considered by the bank to improve the community's quality of life.

During an economic downturn, companies must continue to invest in the CSR activities and embed them into their business strategies for long-term success and sustainability ("CSR is key to survival in tough times.," 2008). CSR has become part of companies' commitments whether in a booming economy or in an economic downturn. This is

supported by several studies claiming that, during financial crises, companies still engage and report their CSR activities in the annual reports (Abdul Rahman *et al.*, 2010; Muhammad Jamil, Alwi, & Mohamed, 2003). If companies decide to reduce the fund for CSR programs just to return a high profit to shareholders, it is not a good decision because the public will judge how the companies value the CSR and determine whether the company views CSR as an investment or just as a cost.

According to Albright (2004), understanding the industry/market or business environment is useful to determine the structure of the industry and identify the key competitors and their relationship with customers and suppliers. In addition, Malaysian culture is shaped by its local environment with several ethnicities, religions and races. Hence, it is believed that religion is a salient factor that influences the CSR engagement in Malaysia (Dusuki & Yusof, 2008; Lu & Castka, 2009; Ramasamy *et al.*, 2007; Saleh *et al.*, 2010; Zainal *et al.*, 2013; Zulkifli & Amran, 2006) and other developing countries such as Lebanon (Jamali *et al.*, 2009), India (Arevalo & Aravind, 2011) and the Maldives (Shareef *et al.*, 2014) .

Furthermore, in order to leverage resources, opportunities and competencies in conducting the CSR initiatives, companies can establish collaborations, partnerships or joint venture cooperation with external parties such as customers, NGOs, not-for-profit organizations, educational institutions, local governments or other business partners. This collaboration may increase the successfulness and enhance the impact of the CSR implementation (Cooke, 2010; Harribey, 2011; Jamali & Mirshak, 2007; McElhaney, 2009). In this sense, the collaboration is defined as a process of solving different aspects of a problem by working together to resolve conflicts or advance shared visions (Gray,

1989). In the CSR management process, the collaboration may be used to achieve potential advantages among all stakeholders involved and address socio-economic issues.

2.5.2   Internal Driving Factors

Managerial decision-making on ethical aspects is influenced by individual and organizational factors such as personal codes of behavior and organizational culture based on what is 'just' and 'right' (Gupta & Sulaiman, 1996). Hence, in a company, the executive chairman, CEO or managing director can be referred to as leaders. The organization's leadership may influence the CSR initiatives (Mahalingam, 2009; Malaysian Institute of Management, 2009; Middlemiss, 2003; Virakul *et al.*, 2009) and the values and attitudes of the leadership or top management towards CSR are very important in the formulation phase process (Werre, 2003). A good leader is able to create and communicate a vision that can inspire people to commit (Werre, 2003) and acts as a role model or mentor to their employees (Khoo & Tan, 2002).

From the Islamic perspective, the manager's good personality and ethics such as capability and honesty (Quran 12:54–56) are very crucial in contributing to a successful organization and ensuring survival in a competitive environment (Salleh, 2001). Muslim managers and CEOs are influenced by the Islamic principles and ethical values (Al Arussi, Selamat, & Mohd Hanefah, 2009). Muslim managers must possess certain criteria such as the ability to be an advisor (*tabligh*) and the characteristics of trustworthiness (*amanah*), truthfulness (*siddiq*), and wisdom (*fatanah*) (Muwazir *et al.*, 2006) to help them accomplish their duties as a vicegerent (*khalifah*) and be accountable to Allah in the Hereafter. In addition, the Muslim managers have an obligation to fulfill the expectations of the Muslim community to manage the organization in an effective and efficient way

and help them to improve their life. In line with that, Abeng (1997) proposes three basic elements that a leader must possess: (i) vision – the vision must be translatable and achievable; (ii) value – based on moral culture (freedom and justice) attached to business conduct that must be fair, committed to business integrity, and based on an efficient and effective management system; and (iii) courage in decision-making and judgment. Indeed, Islam urges Muslim leaders to continually improve in leadership personality development (Quran 12:53; 75:2 and 89:27–30) and to develop the culture of the organization in accordance with the Islamic business ethics (Abeng, 1997).

Reave (2005) also argues that there are relationships between spiritual beliefs (religion) and personal values for effective and ethical leadership practices. In a study about the cultural dimensions of Anglo, Australian and Malaysian managers, Abdullah and Lim (2001) indicate that Malays have more positive attitudes toward religion compared to Malaysian Indians, Malaysian Chinese, Australians and Anglos. In addition, they suggest that the Malay managers uphold their religious values and practices at the workplace (Abdullah & Lim, 2001). Abdul Rashid and Ibrahim (2002) also claim that the personal values of the Malaysian managers and executives are influenced by family upbringing, traditional beliefs and customs and common CSR practices in their industry.

In sum, the leadership factor has a significant influence on CSR engagements in Malaysia. These leadership values and attributes have a link with the personal characteristics of the leaders which are related to family background, religion, experience, and customs. Interestingly, previous studies (Abdul Rashid & Ibrahim, 2002; Ramasamy *et al.*, 2007; Teoh & Thong, 1984) were conducted using either questionnaires, personal interviews and content analysis of companies' annual reports to

examine the factors determining awareness and attitudes towards CSR. However, in the present study, members of the management team and operational managers or staff were interviewed to gain insights into the leadership factors that influence the CSR engagement especially in the process of environmental scanning and designing and implementing the CSR initiatives.

Additionally, the CSR engagements also need the strong support of companies' resources, namely, the financial (Katamba *et al.*, 2012; McGuire, Sundgren, & Schneeweis, 1988; Virakul *et al.*, 2009) and human resources (Farook, 2007; Katamba *et al.*, 2012; McElhaney, 2009; Middlemiss, 2003; Virakul *et al.*, 2009; Wood, 2007). The financial sources are vital for continuity of the CSR initiatives and normally the social responsible companies will allocate a regular amount of money for such activities and this budgeted figure is part of the CSR fund. Some companies establish foundations to manage the CSR fund, like the Maybank Foundation.

Furthermore, the commitment and involvement of all employees towards the CSR engagements is a key driver to manage CSR successfully (Katamba *et al.*, 2012; McElhaney, 2009; Middlemiss, 2003; Wood, 2007). The voluntary participation of all members in a company may inculcate a sharing and caring culture and make them more responsible towards their jobs (Knox & Maklan, 2004). Employee volunteerism (McElhaney, 2009) may help to create a sense of passion and 'doing something of value' because they are personally and emotionally engaged in such activities (Wood, 2007). Additionally, leaders in the decision-making process may give high consideration to team members' inputs to improve their commitment to the final decision, create a sense of belonging to the team and enlist their support for the leaders (Andrews, 1995).

The nature or type of industry also has some influence on the CSR initiatives. Prior studies claim that the financial sector shows more positive attitudes towards CSR than other sectors such as telecommunications, manufacturing or construction sectors to improve the long-run profitability of the company (Abdul Rashid & Ibrahim, 2002; Amran & Devi, 2008). This is another reason why this study chose Bank Islam (as a financial institution) as a case study to gain insights into the meaning of the CSR concept and the CSR management process. Arguably, the business nature of a bank that always deals with the public may force the bank to contribute back to society through CSR engagements. In addition, the spirit of Islamic bank establishment is highly related to religious obligations through the *maqasid Shariah* to improve the wellbeing of society (Basah & Md Yusuf, 2013; Platonova, 2013; Sairally, 2013). The next section discusses in detail the benefits that may yield from CSR engagements.

2.6   CSR Benefits

From the Islamic perspective, the ultimate objective of CSR engagement is to attain Allah's blessings (*barakah*) and reward (*al-falah*) in this life and in the Hereafter (Muhamad, 2007). *Barakah* and *al-falah* are considered as immaterial benefits that yield from CSR engagement (if they are performed in accordance with *Shariah* principles, that is, as part of worship). Very few studies have discussed the non-material benefits of CSR and most of the prior studies are concerned with the material benefits of CSR such as improving financial performance, enhancing the brand image and increasing the employees' job satisfaction and motivation. To fill this gap, the present study tries to examine the benefits of CSR which cover material and non-material aspects such as religious, social and economic impacts on the recipients and stakeholders as well as on

the organization. Examples of the non-material benefits of CSR include: (i) strengthened relationships (*ukhuwwah*) among the staff and also between the business entity and the local community; (ii) improved understanding among Muslims about Islamic values and teaching; and (iii) enhanced understanding among Muslims and non-Muslim community members about Islamic banking and finance.

On the other hand, according to the CEO of Bursa Malaysia Berhad, Dato' Yusli Mohamed Yusoff in his comments during the StarBiz-ICRM CR Award 2009, "CR builds real business value. It increases profitability, enhances a company's reputation and can often be a driver for innovation and learning". CSR should not be emphasized as only a publicity or marketing tool, but it does have a strategic value for a company's ability to compete (Middlemiss, 2003). Nowadays, CSR has become strategic and essential especially during economic crises ("CSR is key to survival in tough times.," 2008) for companies' survival. According to Davis (1967), all actions of a businessman must be socially responsible and able to be maintained for long-term benefits. CSR may be considered as an investment not a cost and will contribute to financial and non-financial returns ("CSR is key to survival in tough times.," 2008). Many Malaysian companies have realized the importance of CSR in their organizations and are active in promoting the CSR activities (Malaysian Institute of Management, 2009).

(i)   Improve community relations and recipients' quality of life

From the Islamic perspective, CSR should be considered as a mechanism to improve the quality of life of members of Muslim society (*ummah*) (Farook, 2007; Sairally, 2013; Yusof & Bahari, 2011). If companies assume that they are part of a local community, they are responsible for enhancing the community's quality of life by helping the

government to improve the basic facilities and infrastructure such as electricity, water, recreational parks and public transportation. According to Farook (2007), Islamic banks engage in social obligations because they are subject to a collective responsibility (*fard kifayah*) that promotes justice and the benefits of *ummah*. The goals such as reducing the poverty rate and improving community development should be embedded in the CSR commitments to be achieved. For example, Shareef *et al* (2014) suggest that companies in the Maldives prefer to conduct CSR activities for the underprivileged individuals in the society (the main target) to improve the relationship between the business and the community at large.

(ii)   Increase tendency to recruit and retain quality workforce

CSR involvement by companies may help to recruit and retain the best workers and get full employee commitment (Cooke, 2010; Maignan *et al.*, 2005; McElhaney, 2009; Middlemiss, 2003; Shareef *et al.*, 2014; Thorne *et al.*, 2008). It enhances employee relations that yield better performance. For instance, Werre (2003) found that, by introducing a new Occupational Health and Environment Management System, the number of accidents reduced significantly. This is supported by a study by Cooke (2010) that found most companies realized the benefit of staff attraction or retention through corporate social investment. In addition, the socially responsible companies will help to increase employee satisfaction by treating them equally and fairly (Middlemiss, 2003; Werre, 2003). The CSR engagement may also influence the decisions of prospective employees to join the socially responsible companies (Cooke, 2010).

(iii) **Promote business sustainability through competitive advantage**

In the business world, companies compete for each other to survive in the long-term business and being a socially responsible company is a tool to promote business sustainability through its value proposition in non-price competition (Farook, 2007; Sairally, 2013; Shareef *et al.*, 2014). The company that engages in and sustains the CSR initiatives is going to get a chance for long-term survival through competitive advantage (Amran & Siti Nabiha, 2009; Dusuki & Abdullah, 2007a; McPeak & Tooley, 2008; Middlemiss, 2003; Samy, Odemilin, & Bampton, 2010), marketing benefits (Cooke, 2010) and improved customer trust, loyalty and satisfaction (Shareef *et al.*, 2014; Thorne *et al.*, 2008). Furthermore, customer engagement is among the tangible benefits that yield from investing in the CSR activities (Dawkins & Lewis, 2003; Maignan *et al.*, 2005)

(iv) **Improve the company's or brand's reputation and image**

Some companies believe that being a good corporate citizen may improve the company's reputation and image in the eyes of the public (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Arshad *et al.*, 2012; Cooke, 2010; Dusuki & Abdullah, 2007a; Haniffa & Cooke, 2005; Hine & Preuss, 2009; Maignan *et al.*, 2005; Middlemiss, 2003; Saleh *et al.*, 2010; Zulkifli & Amran, 2006). Waddock (2009) explains that reputation is an external assessment of an organization held by external stakeholders which involves several elements, including an organization's ability to meet stakeholders' demands, the rational attachments that a stakeholder perceives in regard to an organization, and the overall image that stakeholders have of the organization. Moreover, being recognized as a socially responsible company is a target in some prestigious companies to improve the

company's image and reputation. Awards and recognition also become an indicator or benchmark regarding what the company has done for society.

(v)   Improve corporate financial performance

A great bulk of empirical research emphasizes the connection between the social and financial performance of business entity (Geva, 2008; McWilliams & Siegel, 2000; Wood, 2010). It is based on two arguments which are reciprocal in nature: (1) if the firm is socially responsible, it may improve the financial performance, or (2) if the firm is profitable and has a lot of resources, it may influence the social involvements (Waddock & Graves, 1997). However, the relationship of corporate social performance on corporate financial performance is still inconclusive because the findings of prior studies are mixed, that is, the relationship may be positive, negative and neutral; however, a few other studies show a positive relationship between socially responsible practices and financial performance (Arshad *et al.*, 2012; Frooman, 1997; Godfrey *et al.*, 2009; McPeak & Tooley, 2008; Orlitzky, Schmidt, & Rynes, 2003; Samy *et al.*, 2010; Shen & Chang, 2009; Simpson & Kohers, 2002; Waddock & Graves, 1997). The inconsistency in findings is due to: (i) different conceptualizations or lack of theories; (ii) different measurements and methodologies used; (iii) deficiencies in the availability of empirical data; and (iv) flaws in empirical analysis (Geva, 2008; McWilliams & Siegel, 2000; Ullmann, 1985; Wood, 2010).

For instance, a study by Arshad, Othman and Othman (2012) showed that Islamic CSR initiative disclosures have a positive relationship to firm performance (measured by return on assets and return on equity. In their study, the annual reports of 17 Islamic banks in Malaysia were reviewed and the study claims that CSR can be a strategic tool to

meet stakeholders' expectations for business sustainability (Arshad *et al.*, 2012). In terms of financial benefits, the main contribution is generating revenue from the development of new products or services and reducing operating costs. Reducing operating costs involves the cost of electricity, water, waste handling and raw materials.

In addition, organizations can also get benefits from the re-use or recycling of energy and materials (e.g. paper). CSR should not be seen as an unwanted cost but rather as a strategic investment or a way of managing benefits (Ang, 2010; Cooke, 2010). It may help stronger financial performance and profitability. A study by Werre (2003) reveals that commitment to the CSR activities can increase sales through positively influenced retailers, reduce health insurance costs and improve industrial relations (future benefits). In addition, McElhaney (2009) claims that the financial benefits of effective strategic CSR are found in human resources, reputation and branding and operational cost savings.

(vi)   Attract investment / increase capital

Many companies expect that being a socially responsible company is a strategy to attract and maintain individual or institutional investors that demand CSR (socially responsible investors). The investors can be local or international investors. CSR will improve relations with the investment community and provide better access to capital (Reeve, 2004; Thorne *et al.*, 2008). Further, the CSR engagement acts as an insurance-like protection of companies to create and improve shareholder value (Gallego-Alvarez *et al.*, 2010; Godfrey *et al.*, 2009). In the Malaysian context, embarking on the CSR initiatives can lead to the penetration of foreign markets and also attract investment opportunities from foreign and local investors (Amran & Siti Nabiha, 2009; Muwazir *et al.*, 2012; Saleh *et al.*, 2010). According to Saleh, Zulkifli and Muhamad (2010), the CSR

involvement could attract and maintain institutional investors because they feel more secure about the long-term benefits. Firms can access new capital for product development, penetrate new markets and capital expenditures to increase sales figures, productivity and quality of the products. As a result, the profitability could also be increased gradually.

(vii)   Help to conserve the environment

By engaging in the CSR activities, companies help to conserve the environment for future generations. According to the Islamic perspective on preserving the environment, as a vicegerent of Allah, each individual has an obligation to protect and conserve the environment from any damage. Several initiatives can be introduced to achieve environmental objectives through reduced pollution, new environmental policies and new programs to conserve the environment (Werre, 2003). Moreover, as a financial provider, Islamic banks can also take a proactive action by financing companies that show positive environmental consequences in their projects or produce a minimal impact on the environment (Farook, 2007).

2.7   Issues and Challenges of CSR Engagements

There are still many challenges and problems regarding CSR engagements for the benefit of recipients as well as to the business. Prior studies have identified several barriers that influence CSR engagements in companies, such as: (i) lack of commitment and participation from top management (Katamba *et al.*, 2012), managers and other supporting divisions like accountants, lawyers, employees and marketing teams (Middlemiss, 2003) as well as shareholders and people in the community (Virakul *et al.*, 2009); (ii) economic pressure and recession (Middlemiss, 2003); (iii) lack of resources

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(training, financial and informational) (Arevalo & Aravind, 2011; Katamba *et al.*, 2012; Shareef *et al.*, 2014); (iv) difficulty in the process of CSR implementation (Arevalo & Aravind, 2011) and evaluation (Katamba *et al.*, 2012; Virakul *et al.*, 2009); and (v) lack of awareness of CSR among stakeholders (Shareef *et al.*, 2014). Shareef *et al.* (2014) propose that, to overcome these barriers, CSR awareness programs which include understanding of the concept and rationale for CSR, recognition (awards and rewards) and also tax incentives by government may help companies to be actively involved in CSR activities.

In the Malaysian context, the important challenge that needs to be handled by the government and policy-makers is to improve the understanding of the concept of CSR by companies and to educate the society about their power and right to place some pressure on companies to be socially responsible. Due to the lack of understanding on the concept of CSR (Amran & Siti Nabiha, 2009; Lu & Castka, 2009), some companies engage in the CSR activities through imitation of practices of multi-national companies or more recognized companies (being awarded as best CSR practices). Without fully understanding the concept of CSR, they need a nationalized CSR guideline which reflects Malaysia's environment, politics, economy and culture as such factors will influence how Malaysian companies conduct their business especially their ethical and social responsible activities.

In addition, according to the Director of CSR Asia (Malaysia), Rikke Netterstrom in her interview with The Star, said that even though CSR in Malaysia still has a long journey ahead, the government plays a significant role in pushing the CSR agenda forward (Mahalingam, 2009). Hence, the government should offer more incentives to encourage

companies to implement CSR. On the other hand, companies should also have a joint venture program or close cooperation with other institutions such as not-for-profit sectors (Cooke, 2010). These institutions have the power, expertise, skills and knowledge to jointly plan and implement such activities in the form of sponsorship (financial support), human power (staff) and logistics (venue and event equipment).

Furthermore, CSR engagement in Malaysia is still strongly tied to philanthropic activities such as grants, donations for charity and welfare activities, sponsorships and education support programs (Lu & Castka, 2009; Mohd Ghazali, 2007; Ramasamy & Hung, 2004). These activities are related to the nature of the business and are seasonal as they are highly associated with religious/ethnic festivals such as *Ramadhan* and *Hari Raya* for Muslims, Chinese New Year for Chinese and *Deepavali* for the Indian community (Zulkifli & Amran, 2006). Hence, managers may revise the meaning of CSR as a business strategy and a long-term investment for business sustainability (Middlemiss, 2003; Porter & Kramer, 2006).

Another challenge faced by companies is how to create a CSR culture among all employees which includes the management team, operational staff, administrative staff and supporting staff to be actively involved in the CSR activities (Hung, Ramasamy, & Lee, 2010; Ramasamy & Hung, 2004). Ramasamy and Hung (2004) claim that only the senior management level is actively involved in CSR (at about 80% involvement) compared to the lower management level (with only 30% involvement in CSR). Therefore, it is not surprising to notice that some of the middle management levels such as branch or division managers are still struggling in defining the meaning of CSR.

Moreover, many companies nowadays are looking for ways to stay ahead for competitive advantage. Each company tries to be the best in attracting investors and customers. On top of that, due to information technology, globalization (Amran & Siti Nabiha, 2009) and liberalization (Janggu, Joseph, & Madi, 2007), companies need to balance between the core business of making profits and also the social dimensions of their business by engaging in and sustaining social responsibility programs (Darrag & E-Bassiouny, 2013; Hardjono & van Marrewijk, 2001).

Financial and organizational constraints have also become another problem that companies face when implementing CSR initiatives (Ramasamy & Hung, 2004). For instance, small and medium enterprises do not have enough financial or human power to conduct CSR programs on a large scale and over a long-term period (Siwar & Hossain, 2009). Additionally, among the factors that contribute to the lack of CSR engagements in Islamic banks as perceived by customers are: (i) low level of commitment; (ii) less priority placed on the importance of CSR; and (iii) lack of commitment to Islamic ethics and ethical values (Mohd Nor & Asutay, 2011). From the above discussions, the challenges of CSR implementation in some companies in developing countries are similar such as financial resources, involvement of stakeholders in the CSR activities (staff, top management, community and recipients) and also the lack of understanding of the CSR concept and practices. The following section explains the CSR management process by reviewing several studies concerning the topic.

2.8　CSR Management Process

The Islamic management system is based on the Islamic faith which concerns ethical issues (Ismail & Mhd Sarif, 2011; Loqman, 2001). Salleh (2001) suggests that there are three features in the newly emergent management style: knowledge base, empowerment, and teamwork. The knowledge base is to encourage individuals within an organization to conduct the business responsibly and reinforce trust, commitment and a caring attitude (Salleh, 2001). Salleh (2001) adds that empowerment and teamwork are tools to help organizations rapidly change by speeding up decision-making, self management, guided monitoring and effective communication among workers. Thus, the concept of CSR from the Islamic perspective is highly related to the Islamic ethical philosophy in promoting social responsibility and justice in wealth distribution.

The CSR management process may consist of three important aspects, namely, initiating, implementing and monitoring CSR projects, and may be part of the overall management strategy (Katamba *et al.*, 2012) which involves three major steps: determination of values, integration and implementation, and evaluation and communication of CSR policy (Morand & Rayman-Bacchus, 2006). Therefore, this study argues that the CSR management process may involve several processes such as environmental analysis, design, implementation, and control and evaluation which require human, financial and physical resources towards various stakeholders. All of the activities in this process should be in accordance with the *Shariah* principles and guidelines to govern a good relationship with Allah and other creatures including human beings and the environment.

The CSR management process appears to be a 'secret recipe' of companies that are socially responsible. In order to understand the concept of CSR, the basic process of allocating the resources of the business toward social initiatives and ensuring the effective measurement of the impact on all stakeholders in implementing social programs needs to be considered (Godfrey & Hatch, 2007). The business world keeps changing and companies that can adapt to the changes and learn over time (Maon *et al.*, 2009) will stay ahead. The changes need managers to make some modifications and alignments of company policies and practices including development and implementation of CSR by tailoring activities to their stakeholder expectations (Dawkins & Lewis, 2003; Maon *et al.*, 2009).

Dawkins and Lewis (2003) and Arshad, Othman and Othman (2012) claim that companies may carefully manage their stakeholders' expectations in designing business strategies through the CSR engagement. For instance, Throne, Ferrell and Ferrell (2008) propose a framework to manage social responsibility by utilizing the stakeholder perspective. The framework has six steps: (i) assessing the corporate culture; (ii) identifying stakeholder groups; (iii) identifying stakeholder issues; (iv) assessing the organization's commitment to social responsibility; (v) identifying resources and determining urgency; and (vi) gaining stakeholder feedback. This framework is focused on managing stakeholders in the process of managing responsibility and business ethics (Thorne *et al.*, 2008). Hence in managing the CSR initiatives, stakeholders and their issues should be carefully determined in order to maximize the value of CSR activities.

Essentially, the CSR engagement needs to be designed and implemented systematically and effectively to maximize the impact of the programs on the recipients. Further, CSR should be embedded in a company's vision, mission, strategies and policies to improve the wellbeing of community and recipients. If these initiatives are properly managed, it may help to reduce the poverty rate and enhance community development (Mohd Nor & Asutay, 2011; Sairally, 2013). In addition, Morris and Biederman (1985) argue that corporate gifts should complement corporate strategic goals through: (i) aligning the corporate gifts with corporate product and goals; (ii) involving top management in a corporate contribution; (iii) establishing a contribution committee (foundation) to manage corporate contributions; (iv) recruiting a manager (who has a good experience in conducting social activities and business expertise) to manage corporate giving; (v) managing all applicants carefully and politely; (vi) setting a long-term budget for contributions; and (vii) being ready for opposition. In addition, some companies like the Patagonia, Lafuma and Bodyshop position their CSR initiatives through a niche strategy (Harribey, 2011).

Due to limited studies on the CSR management process from the Islamic perspective, this study reviews several frameworks or models that have been proposed in the Western contextual settings such as in the work of Werre (2003), Castka, Bamber, Bamber and Sharp (2004), Panapanaan *et al.* (2003), Maon *et al.* (2009), and Maignan *et al.* (2005). In addition, a few studies on CSR engagement from developing countries such as Lebanon, Uganda, India, the Maldives and Indonesia also have been reviewed to gain insights into the process of managing CSR.

Firstly, Werre (2003) reveals that before a company wants to implement the CR activities, it has to be alert about the organizational environment, aware of the value of top management and all the people in the organization and lastly an inspired leadership. There are four phases in the model: raising top management's awareness; formulating a CR vision and core corporate values; changing organizational behavior; and anchoring the change (with Chiquita Brands International as a case). The model suggests that in the first phase, top management should be proactively aware of these two main forces: (1) awareness of core values (internal driving force); and (2) sensitive to developments in the environment (external driving force). In increasing the internal driving force, the key personal values of top managers and the organizational and board culture need to be identified; while for the external driving force, stakeholder dialogue and scenario analysis can be employed to enhance the sensitivity to outside developments. In the second phase, a CR vision and core corporate values need to be formulated to react to the external environment and as a source to inspire the employees of the company.

In the next phase, the organizational behavior can be tailored (e.g. by establishing a code of conduct, having external measurement standards, educating employees about the concept of CR). Lastly, anchoring the changes can be done (e.g. through incorporating CR into the company's long-term strategy and evaluating progress using internal and external audits). By testing this implementation model in the Chiquita case, several positive effects were observed in the social, environmental and economic effects for the society, employees, consumers and the business itself (Werre, 2003). However, this model is more suitable to a company in an environment (internal and external) where the managers, employees, consumers and shareholders are aware and have a good

understanding of the concept of CSR because to change the organizational behavior is not an easy job without a concrete justification and needs to start from the top. In addition, the implementation model does not clearly mention the external stakeholders' involvement except in raising top management awareness and in the external confirmation process (Maon *et al.*, 2009).

In addition, Castka, Bamber, Bamber and Sharp (2004) offer a CSR management system which is compatible with the ISO 9001:2000 quality management system. In this framework, CSR should be managed as a system which consists of a process for management and board responsibilities, identification of stakeholders' expectations, strategic planning, managing resources, processes and systems, managing change and continuous improvement and measurement and analysis to evaluate the impact. This managerial guideline is a process-based management system which integrates internal control and can be embedded in the organization. However, this framework may not be applicable to companies that are not familiar with quality management systems or that are at the early stage of establishment.

Panapanaan *et al.* (2003) discuss how the Finnish companies adopt and manage CSR. They propose a very comprehensive framework that highlights the CSR processes and management aspects. The framework can be used as a guideline for companies that commit to engage and manage CSR properly. The study reveals that the Finnish companies are very committed and proactive in response to CSR and manage it progressively (Panapanaan *et al.*, 2003). In that contextual setting, the concept of CSR is very well accepted, understood and blended in the Finnish environment and communities. Additionally, the proposed framework is very useful because the companies are ready to

practice and sustain the CSR initiatives as compared to the Malaysian context where the level of CSR awareness is still low even though companies have shown positive attitudes towards practicing CSR (Amran & Siti Nabiha, 2009; Lu & Castka, 2009; Mohd Nor & Asutay, 2011) and the understanding of the CSR concept is far behind the international best practices (Bursa Malaysia, 2007).

Among the most current literature on the CSR management process is a study conducted by Maon *et al.* (2009). This study proposes an integrative framework of CSR design and implementation using a multiple case study and Lewin's (1951) force field model of change. The framework is suitable to organizations that are seeking to implement CSR-oriented change and already have a set of CSR-oriented values but facing problems in the implementation process and need evolutionary change actions (Maon *et al.*, 2009). However, this framework may not be suitable to Malaysian companies where the CSR practices are still at an infancy stage. Moreover, the cases that were selected for that study have a good reputation and are well recognized internationally for their investment in CSR. Furthermore, all of the cases are located in developed countries where the CSR is well recognized, mature and practiced proactively which also gives credit to the framework. The study considers CSR as an organizational-change process and interviews only senior managers who were responsible for the organization's CSR program. In contrast, the present study considers CSR engagement as a new business agenda and the coverage of interviewees was wide including the management team, operational officers and also the recipients of the CSR benefits.

Lastly, Maignan *et al.* (2005) also propose a comprehensive managerial framework for implementing CSR by integrating stakeholder orientation in marketing. They introduce a step-by-step approach for implementing CSR and this model employs stakeholder orientation (norms and values) to build an organizational identity and reputation through implementing CSR in marketing. The framework is highly marketing oriented and the ideal CSR implementation should give a balanced consideration of a stakeholder perspective into all aspects of business operations (such as finance, accounting and human resources) to form an inherent component of an organization's culture and be reflected in its day-to day operations (Werther & Chandler, 2006). In addition, Maignan *et al.* (2005) model is more focused on stakeholders' issues. It is believed that the success of CSR implementation also depends on other environmental/external factors and internal competencies to achieve CSR objectives (Werther & Chandler, 2006). The possible implication of an unbalanced view of a CSR initiative is that the initiative may not be aligned with the organization's long-term strategy for business sustainability.

In developing countries, a few studies have been conducted to study CSR engagements and management such as by Jamali *et al.* (2009) and Jamali and Mirshak (2007) in Lebanon, Hidayati (2011) in Indonesia, Katamba *et al.* (2012) in Uganda, Shareef *et al.* (2014) in the Maldives, and Virakul, Koonmee and McLean (2009) in Thailand. However, none of these studies offer a managerial guideline to manage CSR in a systematic approach. Such a guideline would be useful to help companies that want to embark on CSR activities. Generally, the studies reveal that even though most companies do not formalize or integrate CSR into their strategic processes, they do engage in and commit to practice CSR in order to fulfill their religious beliefs and most of the programs

are seen as philanthropic or discretionary type activities (Jamali & Mirshak, 2007; Jamali *et al.*, 2009; Shareef *et al.*, 2014).

For instance, in the Lebanese companies, the CSR practices are perceived by their managers as non-systematic, non-structured and non-formalized as operating procedures/strategic processes and most of the CSR initiatives are ad-hoc and fragmented. In regard to the above findings, the CSR practices in Lebanon and the Maldives where the majority of the community is Muslim are tied to Islamic values and the CSR concept is still not well understood and recognized as one of the strategic investments for companies' sustainability.

Conversely, Hidayati (2011) shows that four selected companies in Indonesia revealed a high commitment to engage in the CSR programs which are related and unrelated to their core business for business sustainable development (reputation and competitive advantage). Moreover, in Uganda, the responsibility to manage CSR activities is being handled by middle and bottom-level managers with minimal involvement of top management, there is a lack of monitoring and evaluation mechanisms and the most common CSR practices are cash donations and sponsorships in local community projects (Katamba *et al.*, 2012). Interestingly, Virakul, Koonmee and McLean (2009) claim that CSR activities in four award-winning Thai companies are based on moral or altruistic motivations and are focused more on community projects. In addition, to manage these activities, the companies need to deal with issues such as the process of selecting the appropriate CSR activities, the involvement of people in the relevant community, shareholders' support and understanding and also determining the proper CSR evaluation method.

In sum, the prior models of CSR management are not adequate to explain the Islamic concept of CSR due to the following reasons: (i) the models or frameworks do not recognize the responsibilities of companies to Allah (*hablun min Allah*); (ii) the models are based on humanistic faith and arguments; and (iii) the models are based on materialistic philosophies and lack religious or spiritual elements. Thus, the present study aims to develop a managerial guideline on the CSR management process from the Islamic perspective which is based on the *Tawhid* and *Shariah* paradigm. In addition, prior studies on the CSR engagements of Islamic business entities including Islamic banks and other business entities do not explicitly reveal how the businesses manage and implement CSR initiatives (Jamali & Mirshak, 2007; Jamali *et al.*, 2009; Mohammed, 2007; Sairally, 2013). On top of that, in order for companies to manage CSR activities systematically, they must identify financial sources of CSR funds to support these activities. Thus, the next section discusses how to manage the CSR fund and the role of accountants in managing the fund.

2.8.1 Managing Sources of CSR Funds

With growing awareness of the socially responsibility of business entities, it is little surprise that companies take CSR into account when planning or implementing their activities. There is limited discussion on how companies manage their CSR fund (financial sources to conduct CSR activities) in the academic literature. The CSR fund is a fund with some allocations and the amount and reasons for such allocation may vary among companies. Usually, the fund is allocated on a yearly basis according to the proposed calendar of events (the list of events that will be conducted in a year). The financial sources of CSR fund may derive from companies' yearly allocations (CSR

budgeting) and also other funds such as *zakat*, donation from staff and customers and many more. This section explains two sources of CSR fund which is CSR budgeting and the *zakat* fund.

2.8.1.1   CSR Budgeting

Usually, a company prepares CSR budgets or has a budget to conduct the CSR activities. The process of CSR budgeting needs to be carefully designed to ensure that the companies have enough resources to finance the activities and all the CSR initiatives could be implemented successfully. For instance, some companies in the Maldives prepare an annual budget allocation for CSR (normally these budgets are set at fixed amounts) and there is no budget allocation (predetermined amount) for each CSR program that may be conducted; that is, it is based on ad-hoc decisions and a case-by-case basis (Shareef *et al.*, 2014). According to Bilson (2010), the advantages in improving the CSR budgeting process are: (i) to enhance the accuracy of cash flow reporting to free up cash for the CSR initiatives; (ii) to ensure that it is consistent with the company's long-term strategy for CSR investments; (iii) to allow the management team to better understand the company's business drivers; and (iv) to enhance confidence in the financial management of the company.

2.8.1.2   *Zakat* fund

Besides CSR budgeting, this study explores the practices of the case study, Bank Islam, in distributing its business *zakat* to the eligible recipients (*asnaf*). A study by Ab Rahman (2011) shows that some Islamic financial institutions self-manage their *zakat* to be distributed to the *asnaf* and this fund becomes part of their CSR fund to conduct CSR activities. In managing the *zakat* fund, some Islamic financial institutions introduce a few

mechanisms such as: (i) establishing the *Zakat* Department to supervise all activities pertaining to the *zakat* payment and distribution; (ii) having the *Zakat* policies as a guideline to manage the *zakat* fund of the bank; (iii) distributing the *zakat* directly to the *asnaf* based on the applications from individuals and organizations after determining their eligibility or recommendations from the *Zakat* Department; and (iv) the amount and form of distribution are based on the needs of the potential recipients such as the Home Project, donations to students who study abroad, and *zakat* distributions to higher education institutions and research centers.

2.8.1.3   Role of Accountants in Managing CSR Fund

Traditionally, the accountant's roles can be categorized as: financial accountant, management accountant, and auditor (Tilt, 2009). Relating to CSR matters, generally, the financial accountant is concerned with accumulating information for the financial and narrative reporting of CSR matters, while the management accountant is responsible for providing qualitative and quantitative information to support decision-making on costs, risks, investment approval and competitive advantage, and the auditor is concerned with verification and assurance ("Tilley tells accountants to lead CSR.," 2006).

Currently, the roles of accountants in CSR matters are not only limited to social and environmental accounting which focus on social and environmental reporting but shift to account for the CSR actions in making or not making these initiatives (Tilt, 2009). The accountant should integrate his or her accounting knowledge with other soft skills such as influencing skills to help the management team make better decisions ("Post-Dubai, whither Islamic finance?," 2010). Normally, the management accountants are also involved in preparing budgets (such as sales budget, cash flow budget, marketing and

project-based budget). However, the role of the accountant in the CSR management process especially in CSR budgeting is still in question and needs further investigation.

2.8.2   Managing Stakeholders and Their Issues

Each organization has different groups of stakeholders and their issues may also be different depending on the nature and location of the organization (Hond, Bakker, & Neergaard, 2007). Thorne, Ferrell and Ferrell (2008, p. 15) define stakeholders as "constituents that have a stake in, or claim on, some aspect of a company's products, operations, markets, industry, and outcomes". Freeman (1984) suggests that stakeholders consist of the individuals or groups that can directly or indirectly affect, or be affected by, a firm's activities. Islam recognizes the right of owners or shareholders to make a profit but not at the expense of the claims of other stakeholders, namely, employees, suppliers, customers, society and the environment (Beekun & Badawi, 2005; Haniffa & Hudaib, 2002; Ullah & Jamali, 2010).

Further, Beekun and Badawi (2005) classify stakeholders into three groups based on their priority of rights in the business: (i) those who are directly affected by the success or failure of the business such as employees and shareholders; (ii) those who are sufficiently affected by the success or failure of the business such as suppliers, customers and government; and (iii) external parties such as the environment and the community. Moreover, Ullah and Jamali (2010) prescribe the rights and obligations of business entities towards their stakeholders based on the concept of unity, trusteeship and justice. These three concepts suggest that stakeholders should be treated well and deserve to get benefits according to their stake (rights and claims).

Islam strongly urges business organizations to be responsible toward society by performing the *zakat* and other kinds of charitable and social activities (Quran 2:195). The organization should actively participate in the betterment of the society in which it operates and generates money. Islam strongly encourages organizations to treat all their stakeholders fairly and honestly (Quran 4:58; 23:8; 70:32) especially employees and owners/shareholders, followed by customers, suppliers and other external parties (Beekun & Badawi, 2005). Islamic banks are accountable to various stakeholders like investors, creditors, owners, shareholders, *zakat* beneficiaries and payers, government, community, employees, and customers (Wan Abdullah *et al.*, 2011). The importance of social justice to all stakeholders is mentioned many times in the Quran (Quran 17:35; 4:58; 4:149) and in the *Hadith* of Prophet Muhammad (pbuh): "He will be a witness against one who employs a laborer and gets the full work done by him but does not pay him his wages" (Sahih Al-Bukhari).

The conflict of interest between stakeholders will be resolved if everybody recognizes that they are only the guardians of God's property (Quran 11:86) and all the creatures belong to Allah (Quran 39:62). This is supported by Dusuki (2008a) who states that the Islamic bank managers put higher ratings on commercial objectives while, on the other hand, local communities and customers are more concerned about social objectives. Interestingly, even though managers of Islamic banks perceive that objective, they still engage in social activities because they understand the basic philosophy of Islamic banking establishment. Under the concept of brotherhood, Muslims are supposed to take care of others in the society (Abdul Rahman *et al.*, 2010). In a *Hadith* of Prophet

Muhammad (pbuh): "The Muslims in their mercy towards each other are like a body, if single part of it complains the other parts will be affected" (Bukhari and Muslim).

Moreover, the concept of benevolence (*al-Ihsan*) requires Muslim businessmen to act in an equitable manner and with no discrimination (Quran 49:13) among the stakeholders especially employees. For instance, the establishment of the *qard* fund for the employees experiencing financial problems and to the needy in the community is a good way to demonstrate CSR in Islam. The employees are the greatest assets of a business and the welfare of the employees should be given priority. In a *Hadith* Prophet Muhammad (pbuh): "Those who work for you are your brothers. Allah has made them your assistant" (Bukhari and Muslim).

The employees have a right: (i) to receive fair wages and compensation; (ii) for their jobs to accord with their abilities and power (Quran 2:286); (iii) to have a safe working environment (Quran 2:195); (iv) to have an opportunity to perform their religious duties (e.g. prayers and fasting); (v) to be subjected to a fair and just performance evaluation; and (vi) to have the opportunity to improve their knowledge and skills through training and formal education (Beekun & Badawi, 2005; Muhamad, 2007; Sadeq, 2001). Furthermore, Islam recognizes knowledge is a key for success (Quran 20:114) (Williams & Zinkin, 2010) and it is important for staff to be promoted to higher positions and salaries (Sadeq, 2001). Hence, the organization should be fair in its employment practices and treat employees as human beings (Ahmad, 2001). Allah wants the business leaders to treat their employees with justice and trust (*amanah*):

> O ye that believe! Betray not the trust of Allah and the Messenger nor misappropriate knowingly things entrusted to you. (27) And know ye that your possessions and your progeny are but a trial; and that it is Allah with whom lies your highest reward. (28)
>
> (Quran 8:27-28)

The relationship between business organizations and shareholders is connected under the concept of trust whereby the managers of organizations are responsible for managing the organization's funds (capital) carefully, get the fair amount of returns and have a right to be informed of all necessary decisions and actions. Islam encourages partnerships for the benefit of the parties involved or the society at large (Beekun, 1997). Managers must invest only in the Islamic capital market. In 2010, the Bursa Malaysia hosted 847 *Shariah*-compliant securities representing about 88% of all the listed securities in Malaysia with the total market capitalization amounting to RM650.6 billion (Ministry of Finance Malaysia, 2010). Moreover, in August 2009, the *Bursa Suq Al-Sila'* was introduced to facilitate cross-border multi-currency commodity-based Islamic financing and investment transactions (Ministry of Finance Malaysia, 2010).

In relation to customers, Islam is highly appreciative of the efforts of organizations in producing good quality products. The products and services that are provided must be *halal* (permissible), free from *riba* (interest), and get approval from the *Shariah* Supervisory Board (Muhamad, 2007). The customers have a right to get full information about the product's description, to get the products at a fair and reasonable price, to choose the best quality, accurate measures and weight (Quran 17:35; 7:85; 11:85; 55:7–9; 26:181–183), and to receive after-sales services. Furthermore, Islam encourages business organizations to be lenient with the clients who have financial problems, be tolerant with the time and amount to pay back and, in certain conditions, debtors are eligible to receive

zakat (Haniffa & Hudaib, 2007) and debts should be written off as charity like in the Quran, *Surah Al-Baq*arah: "If debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by the way of charity, this is best for you if ye only knew" (Quran 2:280).

Another type of stakeholder that the Islamic business entity needs to consider is the community where the business operates. The contributions to the community include creating job opportunities with fair wages, cooperating with all private and government agencies to improve basic facilities and develop public infrastructure, providing full support to the social activities and being involved in charitable activities such as donations and *waqf* for the poor and needy (Haniffa & Hudaib, 2007; Muhamad, 2007). The Prophet Muhammad (pbuh) urges in a *Hadith* that: "The one who looks after and work for a widow and for a poor person, is like warrior fighting for Allah's cause or like a person who fasts during the day and prays all the night" (Sahih Al-Bukhari).

In relation to social responsibility towards the environment, Islam urges Muslims to protect Allah's creations (Quran 16:81) and not to misuse or pollute natural resources (Quran 2:60; 2:205; 7:56 and 28:83) (Williams & Zinkin, 2010). The utilization of natural resources for business activities should be done in a socially responsible way (Ahmad, 2001). For instance, Islamic banks' activities may not directly cause harm to the environment and the banks can help to preserve the environment by not providing financial support to companies that are involved in damaging the environment (Maali *et al.*, 2006). Furthermore, the organizations are expected to donate and support the ecological and environmental projects to protect the environment, animals and their habitats. In order to enhance the effectiveness of the CSR management process,

stakeholders and their issues should be carefully identified to maximize the impacts of

CSR initiatives on the recipients as well as on the business performance. Table 2.1

provides list of stakeholders and their issues pertaining to CSR engagements.

Table 2.1
Stakeholders and Their Issues

Stakeholders	Stakeholders' issues
Shareholders	- Reasonable shareholders' return or profits - Shareholders' rights (e.g. attending annual general meeting) - Transparency of shareholder communication - Safeguarding the investments, transparent and ethical business transactions in permissible (*halal*) business activities
Employees	- Management of employees' welfare - Commitment to continuously offer a better working environment - Employment-related CSR issues (discrimination, freedom of association, compensation, health and safety, workforce diversity, absenteeism, work-time flexibility, child labor and forced labor) - Opportunity to enhance knowledge and skills through attending training, workshop and seminars - Opportunities for promotions - Communications with management
Customers	- Providing products that guarantee the customers' satisfaction and meet their expectations - The products are high quality, accessible, safe and environment-friendly and have minimal social and environmental impacts. - Disclose all product information - Offering information, training and monitoring of product use and after-sales services - Providing a channel for customer feedback and complaints - Responsible social marketing - Services to disabled customers - No hoarding and price manipulation
Suppliers	- Fulfill the requirement in purchasing agreements - Fair pricing practices - Fair dealing with sub-suppliers or sub-contractors - The quality of suppliers' products and source of the suppliers' products
Regulators	- Complying with all standards and regulations especially on reporting - Alert with new announcement and standards

Table 2.1 (continued)

Stakeholders	Stakeholders' issues
Governments	- Participate to improve the quality of life - Support the government in enhancing community infrastructure - Pay the taxes and *zakat*
Local communities	- Participate in community activities such as community assistance projects (e.g. infrastructure development), institutional support (e.g. cooperation with educational institutions), civic campaign and action, donations, charities and sponsorship - Public health and safety protection - Conservation of energy and materials - Involved in solving social problems
Environment	- Minimizing the use of energy - Minimizing emissions and waste - Minimizing the negative environmental impacts of product and services - Good pollution control - Conducting environmental awareness and campaign

Sources: Adapted from (1) "A Stakeholder Model for Implementing Social Responsibility in Marketing", by Isabella Maignan, O. C. Ferrell, and Linda Ferrell, 2005, European Journal of Marketing, 39(9/10), p. 961 and (2) "Balancing Ethical Responsibility among Multiple Organizational Stakeholders: The Islamic Perspective", by Rafik I. Beekun and Jamal A. Badawi, 2005, Journal of Business Ethics, 60, p. 135.

2.8.3   Designing and Implementing CSR Initiatives

In Malaysia, two CSR frameworks are referred to by Malaysian companies in designing, implementing and reporting CSR initiatives, namely, the Silver Book and the Bursa Malaysia CSR Framework. The CSR concept in these two frameworks is used to describe actions or practices that go beyond philanthropy or compliance with applicable laws. These CSR activities will protect the environment, communities, employees, shareholders and other stakeholders as an integral part of the companies' operation for long-term benefits and sustainability. In helping the GLCs, the government through the Putrajaya Committee on GLC High Performance introduced the GLCs Transformation Program in May 2004. The program introduced 10 initiatives, including the Green Book and the

Silver Book to transform GLCs into highly competitive entities. The Silver Book was published by the Putrajaya Committee on GLC High Performance in September 2006 and contains guidelines for GLCs to manage their social contributions. The book prescribes three guiding principles, which are: (i) the primary objective of GLCs is to enhance shareholder returns and to meet the needs of other key stakeholders like consumers and employees; (ii) GLCs should proactively contribute to society for shareholders' and other key stakeholders' value creation; and (iii) GLCs should actively manage their social contributions in the most efficient and effective manner (*The Silver Book: Achieving value through social responsibility*, 2006). This practice is monitored by the Khazanah, a management authority for state investments that has a responsibility for monitoring GLCs' CSR implementation in accordance with the framework.

The Bursa Malaysia CSR Framework was launched in September 2006 by the Bursa Malaysia for publicly-listed companies to implement and report their CSR agenda. Hence, all publicly-listed companies are required to disclose their CSR activities but all these activities are on a voluntary basis. The framework is designed to help companies in developing the CSR agendas, policies and initiatives, and focuses on four key elements which are the environment, community, marketplace and workplace. The objective of this framework is to deliver sustainable value to society at large. After the framework had been implemented for one year, the CSR 2007 Status Report revealed that the level of CSR knowledge and awareness was increasing. Thus, the establishment of the Silver Book guidelines and the Bursa Malaysia's CSR Framework are likely to help enhance the CSR practices of Malaysian publicly-listed companies and GLCs (Read-Brown, Bardy, & Lewis, 2010).

2.8.4 Reporting and Communicating CSR Initiatives

Another issue in managing CSR initiatives is communicating and reporting. From the Islamic perspective, the reporting and disclosure of CSR information to publicly-accessed communication channels such as in the annual reports and company websites is for the purpose of demonstrating accountability to Allah and other business stakeholders. In this sense, the disclosure of social commitments of companies is considered as part of the requirement in the Islamic accounting framework whereby the society has a right to know how the activities of organizations will affect the society's wellbeing (Maali *et al.*, 2006). In Islamic accounting disclosure, two important aspects are identified: a form of social accountability, and a rule of full disclosure (Baydoun & Willett, 2000; Haniffa & Hudaib, 2002). The objective of Islamic accounting information is to assist Muslim users in making economic and religious decisions (Haniffa & Hudaib, 2002; Muwazir *et al.*, 2006).

In addition, Muslim decision-makers expect companies to disclose additional information particularly regarding their CSR engagements to assist them make a prudent decision which is considered to be an economic and Islamic jurisprudence point of view (Othman & Thani, 2010) and to earn legitimacy in the view of certain groups of stakeholders who are interested in the social agenda (Farook, 2007). Hence, the Islamic business entities especially Islamic banks should disclose all information (financial and non-financial) whether the information is favorable or unfavorable (Quran 2:42) to the company's image as long as it shows the compliance with *Shariah* law. Muwazir *et al.* (2006) identify ten (10) elements of CSR disclosure from the Islamic perspective, which are disclosure of: (i) the corporate mission statement; (ii) information related to the top management; (iii)

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unlawful (*haram*) operations; (iv) *Shariah* Advisory Board; (v) *zakat*; (vi) employees; (vii) products and services; (viii) community involvement; (ix) *qard* funds; and (x) the environment. However, Othman and Thani (2010) indicate that *Shariah*-approved Malaysian companies listed in the Bursa Malaysia still lack transparency in the disclosure of Islamic values such as in the computation of *zakat* and the sharing of benefits among stakeholders. Their study revealed that companies disclosed more about society, followed by products/services and employee themes which indicates that they are well aware about their social responsibilities (Othman & Thani, 2010).

Generally, CSR communications should not be treated as a publicity exercise but need to be organized in a strategic way to maximize the objectives of CSR. Middlemiss (2003) proposes a number of guidelines in communicating CSR: (i) be credible, transparent and honest; (ii) keep it simple and lucid and stick to the facts; (iii) be realistic, humble, confess problems; (iv) design communications according to stakeholders; (v) communicate what has taken place and succeeded; and (vi) involve communications people from the start (p. 359). An effective CSR communication framework is essential to build and strengthen stakeholder relationships by minimizing stakeholder skepticism and sharing companies' objectives in the CSR activities (Du, Bhattacharya, & Sen, 2010). In order to design an effective communication strategy, several aspects should be considered such as the content of the message, communication channels and factors that can influence CSR communication (Du *et al.*, 2010). In addition, a powerful stakeholder group like consumers and media operators also play a key role in communicating and promoting CSR activities (Du *et al.*, 2010; Middlemiss, 2003). Table 2.2 presents a summary of the gaps in the literature on the CSR concept and management process.

Table 2.2
Summary of Literature Gaps

Discourse	Main arguments	Research approach	Literature gaps (conceptual/empirical)	Literature source
Western concept of CSR	1. The only responsibility of the business is to increase profits to the shareholders. 2. The responsibility of solving social problems belongs to government and social agencies, not business.	Conceptual paper	*Conceptual gaps* - business entities that operate in a community should take responsibility to solve social problems and to improve the wellbeing of community and their stakeholders including employees and the environment.	(Friedman, 1970)
	1. CR should include among others social and environmental dimensions. 2. There are four types of responsibilities: economic, legal, ethical and discretionary. 3. A business entity is responsible to various stakeholders such as shareholders, employees, consumers, suppliers, community and the environment. 4. The extension of this responsibility (towards various stakeholders) is due to a company having great economic and social power (resources). 5. The objectives of engaging in and sustaining such activities are; - image building and reputation - improve profitability and financial performance - competitive advantage - stakeholder engagement	Conceptual and empirical papers	*Conceptual gaps* - the Western CSR concept keeps changing and evolving as it is based on empirical observation, theoretical construct, humanistic arguments and has no connection with religious (spiritual) obligations. *Empirical gaps* - most of the studies are conducted in Western countries where their contextual setting, culture and norms may vary from the Muslim countries in Asia and the Middle East.	(Carroll, 1979, 1991) (Freeman, 1984; Freeman *et al.*, 2004)

Table 2.2 (continued)

Discourse	Main arguments	Research approach	Literature gaps (conceptual/empirical)	Literature source
Theories	(i) Stakeholder theory - when business entities fulfill the expectations of various stakeholders, they are able to improve performance of the business and to obtain legitimacy. (ii) Legitimacy theory - addresses the needs of companies to respond to the environmental pressure that may affect the business. (iii) Concept of accountability - assumes that business organizations, through their managers, are accountable for what they have done and people have a right to know about the business operations.	Conceptual and empirical papers	*Conceptual gaps* - 1. Focus on the material performance (tangible benefits) and fail to explain about religious or spiritual obligations of business entities towards the society and other stakeholders. 2. CSR engagements of Western companies are not spiritually connected to the Creator but are subjected to the external pressure of stakeholders to influence how the CSR has been perceived and conducted. *Empirical gaps* - these theories are articulated to reflect the Western culture, norms and values (different contextual settings)	(Archel *et al.*, 2009; Deegan, 2002; Deegan *et al.*, 2002; Donaldson & Preston, 1995; Freeman, 1984; Gray *et al.*, 2006; Gray *et al.*, 1988; Owen *et al.*, 1997; Suchman, 1995)
Islamic concept of CSR	1. Islamic concept of CSR is derived from *Al-Quran* and *As-sunnah*. 2. Muslim CSR scholars explain the concept from various paradigms and framework such as *Tawhid* paradigm, *Taqwa* paradigm, the concept of *maqasid al-Shariah* and *maslahah* and ethical axioms.	Conceptual and empirical papers	*Conceptual gaps* - Current literature on the Islamic concept of CSR reveals some loopholes in that there seems to be an overemphasis on either the *Shariah* framework (or derivative concepts such as *maqasid* and *maslalah*) or the	(Darrag & E-Bassiouny, 2013; Darus *et al.*, 2013; Dusuki & Abdullah, 2007a; Farook, 2007; Khurshid *et al.*, 2014; Mohammed, 2007; Mohd Nor, 2012;

Table 2.2 (continued)

Discourse	Main arguments	Research approach	Literature gaps (conceptual/empirical)	Literature source
	3. CSR covers not only material aspects but also spiritual and moral obligations that secure the existence of business as well as society. 4. The main objectives of social responsibilities are to demonstrate responsibility to Allah, human beings and the environment. 5. CSR in Islam is to promote social justice as well as to obtain Allah's blessing (*barakah*) and *al-falah* in this life and in the Hereafter.		*Tawhid* paradigm. But these two paradigms should be discussed together. *Empirical gaps* - lack of empirical studies to understand the Islamic concept of CSR and how companies operationalize the concept.	Muhamad, 2007; Muwazir *et al.*, 2006; Parvez & Ahmed, 2004; Yusof & Bahari, 2011)
Factors, benefits and challenges	1. CSR engagements are influenced by external and internal factors such as pressure from various stakeholders, religion, leadership, companies' resources and nature of the industry. 2. The benefits that yield from CSR initiatives are measured from material aspects such as improving financial performance, enhancing the brand image and increasing the employees' job satisfaction. 3. The challenges to conduct CSR activities include lack of commitment from top management and other stakeholders, economic pressure,	Conceptual and empirical papers.	*Conceptual gaps* - 1. Factors that influence CSR engagements are determined by the contextual settings of the studies. 2. Most prior studies are concerned about the material benefits of CSR engagements rather than non-material benefits such as to fulfill religious obligations (to attain *barakah* and *al-falah*), strengthening relationships among Muslims and many more.	(Amran & Devi, 2008; Arevalo & Aravind, 2011; Dusuki, 2008b; Dusuki & Yusof, 2008; Farook, 2007; Jamali *et al.*, 2009; Katamba *et al.*, 2012; Maignan *et al.*, 2005; Middlemiss, 2003; Sairally, 2013; Saleh *et al.*, 2010; Shareef *et al.*, 2014; Thompson & Zakaria, 2004; Virakul *et al.*, 2009; Werre, 2003; Yusof & Bahari, 2011)

Table 2.2 (continued)

Discourse	Main arguments	Research approach	Literature gaps (conceptual/empirical)	Literature source
	lack of company resources, and difficulty in the process of CSR implementation.		*Empirical gaps -* 1. Lack of empirical studies to examine the factors, benefits and challenges of CSR engagement in the Islamic banking industry. 2. Some of the empirical studies are based on the CSR disclosure and reporting.	
CSR management process	1. In order to design CSR activities, companies should carefully examine their stakeholders. 2. This process involves at least five essential activities: organization and structure, planning, implementation, monitoring and evaluation, and communication and reporting.	Conceptual and empirical papers.	*Conceptual gaps -* 1. Most of the current literature discusses the governance of relationship between men with other human beings and men with the environment. Few studies focus on the relationship of business with Allah. 2. Not many studies attempt to discuss management of the CSR fund. 3. Most frameworks on CSR management are based on the conventional concept of CSR *Empirical gaps* - lack of empirical studies to explain the process of managing CSR from the Islamic perspective in developing countries.	(Castka *et al.*, 2004; Jamali & Mirshak, 2007; Katamba *et al.*, 2012; Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Virakul *et al.*, 2009; Werre, 2003)

2.9   Summary of the Chapter

After reviewing the relevant literature for this study, it is found that the meanings and management of CSR are varied among organizations and influenced by several related factors according to the location and nature of the business, leadership values and organizational commitment. Most of the previous studies on CSR management have been conducted in Western countries where the concept of CSR is already understood and well accepted among the society. In addition, the Western values and philosophies influence the meanings and practices of CSR. Hence, there is a need to conceptualize CSR from the Islamic perspective to help Muslim business players in designing and implementing the CSR initiatives in systematic ways.

Based on the previous arguments, the CSR philosophy may be considered as a moral or religious obligation to ensure such activities can be sustained to attain Allah's blessing as well as for the sake of all stakeholders including the society and the environment. It is argued that the CSR discussion from the Islamic perspectives is more holistic because it integrates the religious, economic and social obligations in conducting the CSR initiatives. Thus, the CSR engagements should be managed carefully in order to maximize the positive impacts to the society. In order to implement these activities, companies should determine their financial resources and establish sufficient CSR funds. In this sense, accountants play a role to ensure each CSR expense helps to discharge the company's religious, social and economic obligations to all stakeholders. The next chapter discusses in detail the Islamic concept of CSR from the *Tawhid* and *Shariah* paradigm and other derivative concept such as *maqasid Shariah* and *maslahah* (public interest), and *masuliyyah* (accountability).

CHAPTER THREE: CONCEPTUAL FRAMEWORK

3.1 Introduction

Islamic values provide a comprehensive guidance on the social responsibility and accountability of a business entity to its various stakeholders such as employees, shareholders, customers, suppliers, community, the environment and ultimately to Allah. In governing these good relationships (*hablun min Allah* and *hablun min an-nas*), companies should manage their CSR initiatives in accordance to the *Tawhid* and *Shariah* paradigm and other concepts like *maqasid* (objectives) of *Shariah, maslahah ammah* (public interest) and *masuliyyah* (accountability) to attain *al-falah* (success in this life and in the Hereafter) and to promote socio-justice to the stakeholders. The *Tawhid* and *Shariah* paradigm is derived from Al-Quran and *As-Sunnah* to govern humankind in this life and the Hereafter. It differs from Western management concepts that are based on humanist arguments and premise of thought.

The concept of ethics in Islam offers honesty, sincerity, brotherhood, equality and continuous improvement to show that Islam can be considered to be a strong foundation in the sense of responsibility and accountability. The benefit of the Islamic social responsibility framework is that each Muslim is responsible for all deeds in this life and believes that these deeds will be counted in the Hereafter. Hence, *iman* (intrinsic values) will guide individuals to make better judgments and decisions for the benefit of *ummah*. In this chapter, the Islamic view of CSR offers a broader and more holistic alternative philosophical framework to govern the relationship of an individual with Allah, fellow human beings and the environment to fulfill three interrelated obligations, namely, religious, social and economic obligations.

3.2   Islamic Concept of CSR: *Tawhid* and *Shariah* Paradigm

As shown in Figure 3.1, there are three basic elements in Islam, which are: (i) *aqidah* (faith and belief); (ii) *Shariah* (practices and activities); and (iii) *akhlak* (moralities and ethics). These elements are derived from the Al-Quran and *As-Sunnah* and also supported by *ijma*[6] and *qiyas*[7]. The *aqidah* or *Tawhid* is a fundamental principle in the Islamic faith which presumes the commitment to Allah for all people's reverence and gratitude (Alhabshi, 1987). According to Ismail and Mhd Sarif (2011) (p. 129), the *Tawhid* paradigm means "true submission to Allah and absolute devotion to His Commandments". The *Tawhid* has been classified into three categories: (1) *Tawhid Rububiyyah*; (2) *Tawhid Asma was Sifat*; and (3) *Tawhid Uluhiyyah*. The *Tawhid Rububiyyah* is the understanding that Allah is the One who creates, manages and sustains the entire creation. The *Tawhid Asma was Sifat* is the understanding that Allah is named (99 names- *Asma ul-Husna*) and qualified (20 qualifications- *sifat* 20) which has been revealed in the Quran and the *Sunnah* and that only those names and qualifications can be used. The *Tawhid Uluhiyyah* is the understanding that Allah is the only God to be deified and worshipped as enjoined in the *Surah Al-Ikhlas*, Verse 1–4. Essentially, the *Tawhid* governs the relationship between a Muslim and Allah, a Muslim and other human beings and a Muslim and other creatures based on the concepts of trust (*amanah*) and justice (*adl*) (Ismail & Mhd Sarif, 2011). These two concepts urge Muslims to perform worship (ritual *ibadah*) as part of their responsibility as servants (*'abd*) of Allah and vicegerents (*khalifah*) of Allah (Ismail & Mhd Sarif, 2011).

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[6]   The consensus of the religious scholars

[7]   Analogy deductions from the Quran and Sunnah

Muslims believe that the whole of Islamic teaching rests on the principle of *Tawhid*. The principle prescribes total submission to Allah's will (Quran 6:162) and following of the religious requirements in all aspects of life (Maali *et al.*, 2006). In the Islamic framework, people and business organizations are accountable to Allah on the Day of Judgment for all their actions during this life (Quran 4:86). Thus, the *Tawhid* concept has an important role in all aspects of human life including economics and business (Alhabshi, 1987). A Muslim business entity that has been managed by a group of individuals should take into account the social obligations as well as conducting the business in accordance to Allah's commands as prescribed by the *Shariah* principles.

In light of the above discussion on the *Tawhid* paradigm, the concept of servant and vicegerent also needs to be discussed. As a servant and vicegerent on earth, a Muslim is responsible and accountable to Allah. Further, all of his or her actions and decisions must be in accordance with (and are subjected to) Allah's will and should be considered as part of worship. The concept of the vicegerent requires a Muslim to enforce the *Shariah* in his or her life, maintain harmony and peace, protect the environment and demonstrate good behavior (Ismail & Mhd Sarif, 2011; Khan & Karim, 2010; Muwazir *et al.*, 2006). Hence, a manager in an Islamic business entity is also a vicegerent who is a trustee of Allah's property which includes the resources, wealth, expertise, positions and power (Muwazir *et al.*, 2006). As a trustee, he or she has to do the best of his or her abilities in utilizing and managing the resources that are being accessed to run the business for the sake of Allah, other human beings (e.g. stakeholders) and community as a whole.
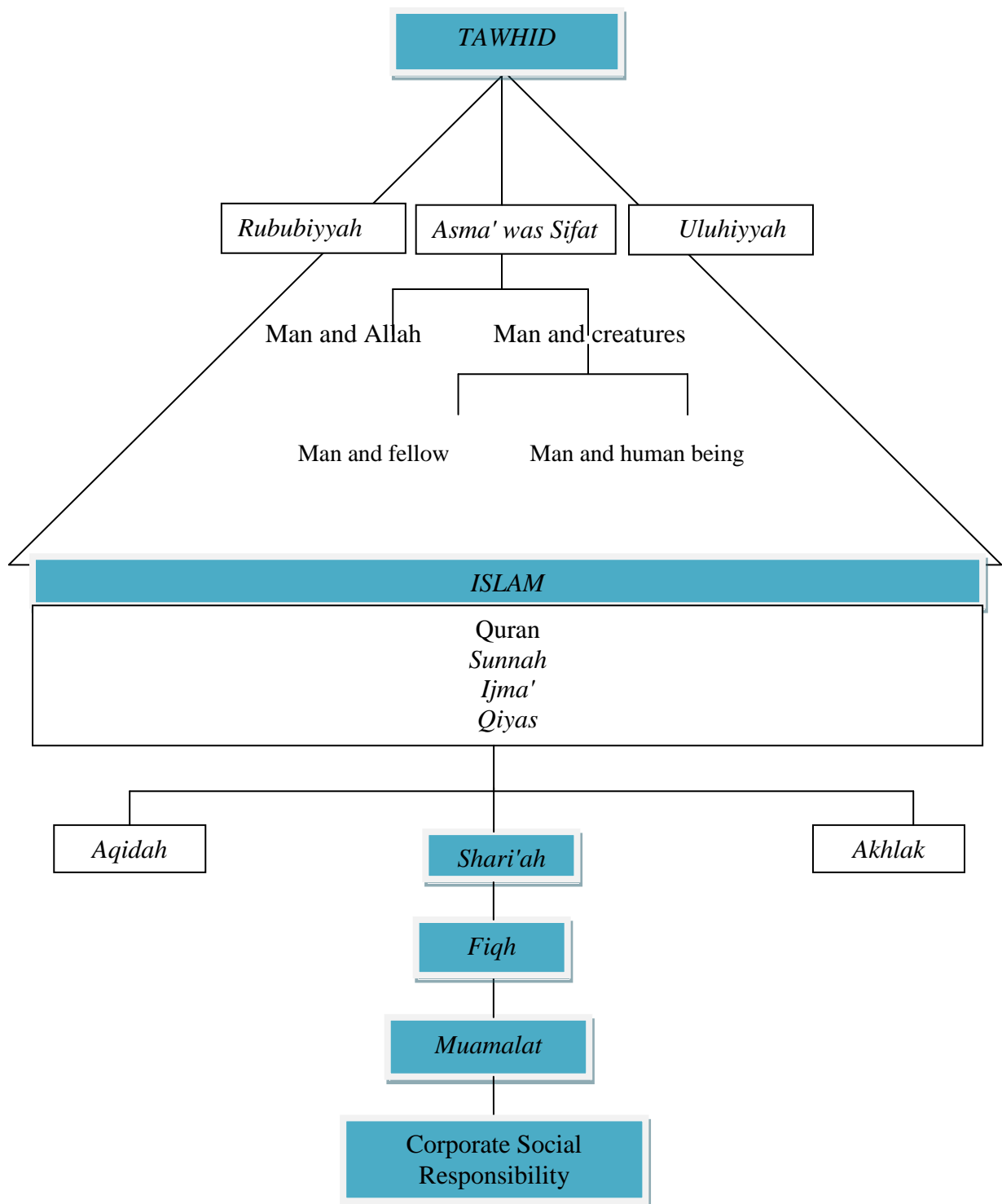
Figure 3.1
The Foundation of the Tawhid and Shariah Paradigm
Sources: Adapted from (1) "A Theoretical Framework for the Development of the Islamic Perspective of Accounting", by Roszaini Mohamad Haniffa and Mohammad Abdullah Hudaib, 2002 and (2) "Islamic Banking Practice: From the Practitioner's by Bank Islam Malaysia Berhad, 1994.

The *Shariah* is the sacred law of Islam to govern all human practices and conduct. Literally, *Shariah* refers to the clear and straight path that would lead humans to *al-falah* (success in this world and in the Hereafter) (Haniffa & Hudaib, 2010, p.6). Dusuki and Abdullah (2007, p. 30) define *Shariah* as "a complete and integrated code of life encompassing all aspects of life, be they individual or social, both in this world and the Hereafter". It covers the entire aspects of Islamic life including beliefs, moralities and principles which guide economic, political and cultural codes of conduct of Muslim individuals and communities. Islam classifies human behaviors into five types or grades: (i) *fard* (obligatory); (ii) *mustahab* (recommended); (iii) *mubah* (neutral); (iv) *makruh* (discouraged); and (v) *haram* (forbidden) (Al Zuhayli, 2002). These are the rules that are discussed in *Shariah* to govern human life to achieve socio-economic justice.

As shown in Figure 3.1, *fiqh* (the body of laws deduced from the *Shariah* to cover specific situations) consists of all aspects of human life and conduct such as *ibadat* (worship), *muamalat* (relationships among human beings), *munakahat* (family matters such as marriage and divorce) and *jinayat* (offences, crimes and punishments). However, the aspect of *fiqh* through Islamic jurisprudence and methodology may change and vary according to local, cultural, technological, economic and societal characteristics (Dusuki, 2008b). *Shariah* offers a comprehensive guidance to govern Muslims' conduct of life by setting up the rules and regulations and has been widely used to discuss any field of knowledge such as law, business and accounting from the Islamic perspective. In addition, any theoretical Muslim position should be based on the *Shariah* framework to become operative (Haniffa & Hudaib, 2002). In this context, CSR is derived from the

Tawhid and *Shariah* paradigm to govern the responsibility and accountability of Muslim business players to Allah, other human beings, and the environment.

3.2.1   Underlying Principles: *Hablun min Allah* and *Hablun min An-nas*

Under the concept of *Tawhid*, an individual has to maintain a good relationship not only with Allah (*hablun min Allah),* but also with other creatures which include human beings (*hablun min an-nas*) and the environment (*ihsan*) (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001; Haniffa & Hudaib, 2002; Muwazir *et al.*, 2006). In Surah Ali-Imran, Verses 103 and 105, Allah (SWT) enjoins Muslims to have a strong faith (*taqwa*) in Allah and encourages unity among Muslims to safeguard their collective wellbeing. The Muslim's relationship with Allah is built from the essence of the six pillars of faith (*rukun iman*) and five pillars of Islam (*rukun Islam*). In this sense, Muslims have to ensure that all their actions and deeds are based on what Allah (SWT) has commanded, and stay away from what Allah has forbade.

Further, a Muslim businessperson has to realize that Allah (SWT) is always watching and know everything including in the heart (Quran 64:4). As a result, he or she has to conduct the business in accordance with the *Shariah* principles. For instance, a Muslim business entity is responsible for paying business *zakat* to discharge its religious and social obligations towards the community. According to this principle (*hablun min Allah*), the ultimate objective of conducting CSR is to achieve *barakah* and *al-falah* by properly managing the company's resources for the wellbeing of *ummah*.

In addition, Islam concerns the good of brothers and sisters in faith (Quran 3:105, 5:2, 8:1 and 26:13). The concepts of social responsibility and justice are derived from the brotherhood (*ukhuwwah*) concept (Maali *et al.*, 2006) which encourages Muslims to be responsible and take care of other Muslims like the Holy Prophet Muhammad (pbuh) said: "A Muslim is a brother of another Muslim: he neither wrongs him, nor leaves him without help, nor humiliates him"(Muslim).

Among Muslims, they have mercy upon one another, so that they should help and support one another for the benefit of *ummah.* The relationship between man and other human beings (*hablun min an-nas*) should be based on the values of trust, truthfulness, firmness, fairness, respect of the law, kindness, tolerance, among others (Muwazir *et al.*, 2006). Allah mentions in *Surah Al-Hujurat*, verse 10: "The believers are nothing else than brothers (in Islamic religion). So make reconciliation between your brothers, and fear Allah, that you may receive mercy" (Quran, 49:10).

This principle urges Muslim corporate players to be involved actively in CSR initiatives in order to fulfill social obligations towards their stakeholders such as employees, shareholders, customers, community and the environment to attain *al-falah*. Thus, an Islamic entity needs to produce a product or service which is affordable, beneficial and useful to the people without causing any harm to society and nature. The information about the products should be transparently disclosed in order to make the users aware and enable them to assess the value of products. Further, companies may allocate specific allocations of CSR funds; for example, to help students from poor families to further their studies by sponsoring the educational fees. These initiatives are aimed to achieve socio-economic justice based on fairness and equality.

In the Islamic context, man has a responsibility to protect and preserve the environment (Quran 2:205 and 7:74) which includes utilizing the natural resources in socially responsible ways. These natural resources are valuable assets that have been created by Allah (SWT) for the sake of human beings. As a vicegerent of Allah's resources on the earth, humans act as a trustee of the resources in the sense of trust (*amanah*) by maintaining this life in peace and harmony. Thus, from the foundation of the *Tawhid* and *Shariah* paradigm, several other derivative concepts also may need to be discussed such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah.* These concepts are used to gain a better understanding of the Islamic perspective on the CSR and CSR management process.

3.2.2   *Maqasid Shariah* (Objectives of *Shariah*)

Another important aspect in the *Tawhid* and S*hariah* paradigm that needs to be discussed is the objectives of *Shariah* or *maqasid Shariah*. For this study, the discussion of *maqasid Shariah* is based on Dusuki and Abdullah (2007) and Haniffa and Hudaib (2002). Literally, *maqasid Shariah* refers to the objectives that are intended by *Shariah* to achieve material as well as spiritual benefits for human wellbeing (*falah*) and good life (*hayat tayyibah*) (Mohammed, 2007). Both of these objectives (spiritual and material) encourage Muslims to be concerned with the needs of others by spending their wealth to get good rewards in this world and in the Hereafter.

In addition, Haniffa (2002) suggests that *Shariah* highlights three interrelated dimensions: (i) seeking Allah's pleasure in establishing socio-economic justice and fulfilling the role of the vicegerent in safeguarding the environment; (ii) realizing benefits to community; and (iii) pursuing benefits to own wealth. In other words, *Shariah*

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encourages Muslims to fulfill three main responsibilities, which are religious, social and economic responsibilities, to attain *al-falah* and *barakah*. According to Imam al-Ghazali (cited in Dusuki & Abdullah, 2007), the *Shariah* as a safeguard used to protect faith (*din*), life (*nafs*), intellect (*'aql*), prosperity (*nasl*) and property (*mal*).

Despite the fact that Islam permits individual benefits, the objectives of *Shariah* are manifested in other aspects such as establishing socio-economic justice, eliminating prejudice and realizing public welfare (*maslahah ammah*) through cooperation and mutual support within family and community (Dusuki & Abdullah, 2007a). In addition, Haniffa and Hudaib (2002) (p. 13) state that the objectives of *Shariah* are to attain: (i) *al-adl* and *al-ihsan* (social justice and compassion for fellow human beings); (ii) *barakah* (Allah's blessings); and (iii) *al-falah* (realize benefits for the people in this world and the Hereafter). In other words, *Shariah* is promoting justice in the entire aspects of human practice including the social obligations of business entities towards their various stakeholders to get Allah's blessings in this life and the Hereafter.

Therefore, in conceptualizing and managing CSR initiatives, managers in Muslim business entities including Islamic banks should take *maqasid Shariah* into account to promote justice and to reflect their commitment to be a good Muslim corporate citizen. For instance, according to Basah and Md Yusuf (2013), the spirit of the establishment of Islamic banks is to fulfill the objectives of *Shariah* (*maqasid Shariah*) through engaging in CSR activities to improve the wellbeing of the society and environment surrounding the business. Specifically, the objectives of CSR engagements from the Islamic perspective are: (i) to fulfill obligations to Allah and various stakeholders including the

community and the environment (as part of worship); (ii) to achieve socio-economic justice (*al-adl*); and (iii) to get rewards in this world and the Hereafter (*al-falah*).

3.2.3   *Maslahah Ammah* (Public Interest)

Another important concept that is derived from the *Tawhid* and *Shariah* paradigm is *maslahah ammah*. *Maslahah* has been defined as "seeking benefit and repelling harm" (Dusuki & Abdullah, 2007, p. 32). This concept provides a basic principle for managing CSR initiatives through three levels of human needs according to their priorities: (i) *dharuriyyat* (essentials – life and death); (ii) *hajiyyat* (complementary – removing hardship); and (iii) *tahsiniyyat* (embellishments – beautifying).

First, *dharuriyyat* is used to protect individual and social basic needs particularly on the five foundations of religion, life, intellect, posterity and property (Darus *et al.*, 2013; Dusuki & Abdullah, 2007a). Thus, in designing a CSR program, companies should place a high priority on providing basic needs such as food, water, shelter, education and healthcare. In addition, Darus *et al.* (2013) suggest that in designing CSR strategies, companies should prioritize activities that promote religiosity (*din*) and enhance faith as compared to activities that promote worldly values such as life (*nafs),* intellect (*'aql),* posterity (*nasl*) and property (*mal).* For instance, companies provide a prayer room to the staff to perform prayers and to conduct religious activities.

Second, *hajiyyat* or complementary needs is concerned with alleviating hardship or to support the essentials needs. For instance, an employer offers to the staff an opportunity to enhance knowledge and skills through attending training, workshops and seminars. Third, *tahsiniyyat* or embellishment refers to refinement and perfection in the customs

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and conduct of people at all levels of achievement (Dusuki & Abdullah, 2007a). For example, companies may provide rewards and bonuses to appreciate their excellent staff.

These three levels of human needs are used in this study to discuss the management of stakeholders and issues related to it such as overcoming the conflicts of interest that may arise among different groups of stakeholders. These levels of human need may serve as a general guideline to the CSR leaders in organizations to identify the relevant stakeholders and design the appropriate CSR initiatives. Based on the level of human needs, companies may allocate more CSR funds (financial resources) to fulfill *daruriyyat* (essential needs) to enhance the wellbeing of stakeholders. As proposed by Dusuki and Abdullah (2007), once the basic needs have been fulfilled, the company can move forward to the next levels, namely, complementary needs and embellishment categories (continuous improvement).

3.2.4   Islamic Concept of Responsibility and Accountability (*Masuliyyah*)

Shariah promotes justice and the Islamic justice is different from the formal justice system of human law because it relates to the concept of *Tawhid*. There are many *Quranic* verses explaining the concept of justice in Islam (e.g. Quran 60:8; 4:58; 49:13; 16:90 and 57:25). For instance, in *Surah An Nissa'*, verse 135 about the importance of justice is as witness to Allah: "O ye who believe, stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be against rich or poor, for Allah can best protect both" (Quran 4:135).

The Prophet of Muhammad (pbuh) also urges Muslims to conduct business ethically and responsibly to ensure that the wealth can be distributed to all people (Muslims and non-Muslims) for God's blessing in this life and in the Hereafter: "The honest businessmen will be resurrected on the Day of Judgment among the Prophets, the most truthful and martyrs"(Tarmidhi).

The responsibilities in Islam are individual, corporate-level and nation-state (Mohammed, 2007). Allah creates man in the best form (Quran 3:110) and man has two crucial roles: as a servant of Allah (SWT) and also a vicegerent (Quran 95:4). As a servant of Allah, man has to worship Allah, follow all *Shariah* principles and guidelines, and be responsible for his or her own actions and the Quran mentions this in *Surah Al Muddaththir*: "Every soul will be [held] in pledge for its deeds" (Quran 74:38) .

In addition, the vicegerent is responsible for other humans, the society and the environment (Zinkin, 2007). Hence, in the business context, a Muslim worker, manager or leader has to realize that all possessions such as wealth, knowledge, expertise, positions and power belong to Allah and man is only the trustee. Muslim employees and leaders also need to maintain and improve a good relationship with God and accept under his supervision that they are responsible to these parties by performing an excellent job, full of knowledge and commitment in a comfortable environment (safety and security) (Hasan, 2001). Furthermore, if Muslims realize this concept, "they are supposed to be the 'best community' by virtue of their exemplary ethical conduct and their ability to establish a just and prosperous civilization that harmonizes and integrates material well being with moral-spiritual values" (Hasan, 2001, p. 51).

In the *Shariah* law, Islam recognizes private/individual and community property. However, ownership of all properties lies in Allah, while the individual property is only in trust and is subject to the obligation to share, particularly with those who are poor and in need. The primary responsibility of a Muslim is to Allah, and he or she will be accountable for all of his or her actions (whether good or bad deeds) (Quran 4:86, 21:47, 23:115, 36:12, 52:21 and 99:7-8) in this life on the Day of Judgment. Naqvi (1981) conceptualizes responsibility (*fard*) in Islamic ethical philosophy as the requirement for a man to be accountable for his actions. Allah mentions in Quran, *Surah Al-Baqarah:*

> To Allah belongs all that is in the heavens and all that is on the earth, and whether you disclose what is in your minds or conceal it, Allah will call you to account for it. Then He forgives whom He wills and punishes whom He wills. And Allah is Able to do all things.
>
> (Quran 2:284)

The concept of accountability (*masuliyyah*) is fundamental in Islam and is broader than the Western concept because it covers an accountability to Allah for all human actions (good and bad deeds) in this life which will be accounted for on the Day of Judgment (Haniffa & Hudaib, 2010; Khan & Karim, 2010; Napier, 2009). These actions are part of worship and *amal saleh* (virtuous deeds) to achieve *al-falah*. Further, accountability requires people to: (i) be responsible to his or her own deeds; (ii) accept all duties and liabilities as well as the benefits of all ownership or responsibilities; and (iii) fulfill all obligations (Abdul Rahman, 1998). For Muslims, all work is considered worship if they are doing it with a good intention, if the work is permissible, and if they make sincere efforts and submit to Allah's will (Ahmad, 2001; Beekun & Badawi, 2005; Haniffa & Hudaib, 2002).

Further, prior studies on Islam and accounting also suggest that Islam is concerned with social accountability in relation to social accounting (Kamla, Gallhofer, & Haslam, 2006). Accounting and reporting are religious obligations and are part of the worship of Allah (Haniffa & Hudaib, 2002). The corporate accountability in the social contract between society and organizations is set out by law (Ismail & Abdul Latiff, 2000). These concepts are derived from the concept of unity of God (*Tawhid*) and accordance with the *Shariah* (Baydoun & Willett, 2000; Haniffa & Hudaib, 2002).

A person who follows the teachings of Islam will consider his/her economic work as a means to attain Allah's pleasure and hence will bring a sense of responsibility and accountability to his/her work not only to the employer but ultimately for Allah (Haniffa & Hudaib, 2002; Sadeq, 2001). Thus, one's accountability to God also encompasses one's accountability to society and this can be interpreted as Islam's promotion of social justice and social responsibility (Sulaiman, 2000). Therefore, an Islamic bank, which operates in a Muslim community must be concerned with the community's quality of life and general needs by donating and sharing the wealth with the community whether through disclosed or concealed donations (*sadaqah*) like as mentioned in *Surah Al-Baqarah*, verse 271:

> If you disclose your *sadaqah* [alms-giving], it is well, but if you conceal them, and give them to the poor, that is better for you. [Allah] will expiate you some of your sins. And Allah is Well-Acquainted with what you do.

> (Quran 2: 271)

Thus, in understanding and managing CSR engagements, companies should realize that social commitments towards the community and other stakeholders are part of their responsibilities and accountabilities to fulfill religious, social and economic obligations in order to attain socio-economic justice in this world and to achieve *al-falah* (success in this life and the Hereafter). CSR engagements are a form of worship and *amal soleh* (virtuous deeds) if they are conducted in accordance with the *Shariah* principles and guidelines. Further, CSR commitments should be viewed as a holistic mechanism to improve the wellbeing of the community especially in a Muslim community by considering other targets such as reducing the poverty rate and developing human capital and not merely restricting CSR to charitable and philanthropic activities.

In addition, based on the concept of vicegerent, managers should properly manage company resources (human and financial resources) for the benefit of all stakeholders including the surrounding community and environment. For instance, CSR funds may be derived from several financial resources such as from the company's budgeted figures and donations from the public and customers. By assuming accountability, those who are accountable (company management) are obligated to provide a proper account of actions and consequences to the stakeholders (shareholders, members of the public and customers) regarding the utilization of these sources to conduct CSR activities. Following that, companies are also responsible for disclosing and reporting relevant information in relation to the usage of the CSR funds to demonstrate accountability not only to the stakeholders but ultimately to Allah. All of the decisions and actions made by Muslim managers in this life will be accounted for in the Hereafter.

Thus, in this study, CSR is defined as any social activities or commitments that have been engaged in by a company to maintain a good relationship to Allah, other human beings including society and the environment, to discharge its religious obligations, to promote socio-economic justice and to obtain rewards (*barakah* and *al-falah*) in this life and the Hereafter. To operationalize the concept, the next section further discusses the Islamic perspective of the CSR management process.

3.3 Islamic Perspective of the CSR Management Process

From the Islamic viewpoint, the CSR management process should be practiced in a holistic approach, from formulating the CSR policies and designing the activities to implementing, measuring, controlling and reporting the CSR programs. Further, all of these phases in the process should be in accordance with the *Shariah*, *maqasid Shariah* and *maslahah ammah.* In this sense, Muslim business entities should integrate their CSR policies and commitments in their corporate missions and make them part of the core business value. Therefore, a *Shariah*-compliant company should automatically uphold this aspiration and proactively engage in and sustain CSR activities to discharge its responsibility to the various stakeholders.

In order to manage CSR activities (from designing, implementing and evaluating), companies may prioritize the activities based on the *maqasid Shariah*, *maslahah* (three levels of human needs) and *masuliyyah* to fulfill various stakeholders' aspirations and demands to achieve socio-economic justice and *al-falah*. Thus, all of the above concepts may be considered in developing a CSR managerial guideline to assist companies in managing their stakeholders and conducting CSR initiatives in systematic approach.

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3.3.1 Stakeholder Management from the Islamic Perspective

In the Islamic perspective, stakeholders are not treated equally and they have different types of claims and rights (Beekun & Badawi, 2005; Khurshid *et al.*, 2014; Ullah & Jamali, 2010). Islam recognizes the right of shareholders to earn profits but not at the expense of other stakeholders' rights. In this study, stakeholders are divided into two groups: primary and secondary stakeholders. The primary stakeholders are shareholders and employees including the management team. Secondary stakeholders consist of customers, community members, suppliers, environment, regulators and government agencies.

For the purpose of the discussion, this study attempts to illustrate some of the stakeholders' management issues and their level of *maslahah* (*dharuriyyat*, *hajiyyat* and *tahsiniyyat*)*,* based on their priorities as shown in Table 3.1. However, in some cases, these priorities may evolve and thus the levels also may overlap or change based on the nature and urgency of the issue. This can be seen, for example, in the need to conduct training among employees. Although employee training is considered a complementary need (*hajiyyat*), if the training is to equip the employees with knowledge on *Shariah* rules, so they are able to produce a new Islamic financial instrument (to protect the faith), then this need becomes an essential need (*dharuriyyat*) of the employees. In sum, Figure 3.2 presents a conceptual framework of the Islamic concept of CSR and the CSR management process based on the *Tawhid* and *Shariah* paradigm.

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Table 3.1

Managing Stakeholders and Their Issues through Maslahah

Stakeholders	Issues pertaining to the stakeholders	Level of *maslahah*
Shareholders	1. Deliver reasonable shareholder returns or profits	*Dharuriyyat* (essential)
	2. Ensure shareholders' rights (e.g. attending annual general meeting	*Dharuriyyat* (essential)
	3. Ensure transparency in reporting and communication	*Dharuriyyat* (essential)
	4. Safeguard the investments, transparent and ethical business transactions in permissible (*halal*) business activities	*Dharuriyyat* (essential)
Shareholders	1. Invest in highly profitable investment	*Hajiyyat* (complementary)
Shareholders	1. Encourage shareholders to be involved in CSR programs	*Tahsiniyyat* (embellishment)
Employees	1. Pay fair wages	*Dharuriyyat* (essential)
	2. Provide a prayer room	*Dharuriyyat* (essential)
	3. Safeguarding the employees' safety and health in the workplace	*Dharuriyyat* (essential)
Employees	1. Provide opportunity to enhance knowledge and skills through attending training, workshop and seminars	*Hajiyyat* (complementary)
Employees	1. Offer bonuses to the excellent workers	*Tahsiniyyat* (embellishment)
	2. Conduct programs to strengthen brotherhood (*ukhuwwah*)	*Tahsiniyyat* (embellishment)
Customers	1. Provide products and services that are lawful (*halal*) and not harm their life	*Dharuriyyat* (essential)
	2. Disclose all product information	*Dharuriyyat* (essential)
	3. Offer fair prices and quality products	*Dharuriyyat* (essential)
Customers	1. Offer information, training and monitoring of product use and after sales services.	*Hajiyyat* (complementary)
Customers	1. Provide a channel for customers' feedback, complaints and suggestions.	*Tahsiniyyat* (embellishment)
Community	1. Public health and safety protection	*Dharuriyyat* (essential)
	2. Provide basic needs such as food and shelter to the poor and needy	*Dharuriyyat* (essential)
	3. Offer scholarships to poor students	*Dharuriyyat* (essential)
Community	1. Participate in community activities such as community assistant projects (e.g. infrastructure development)	*Hajiyyat* (complementary)
Community	1. Establish a foundation to manage CSR activities	*Tahsiniyyat* (embellishment)
Environment	1. Minimize emissions and waste	*Dharuriyyat* (essential)
Environment	1. Conduct a program on environmental conservation	*Hajiyyat* (complementary)
Environment	1. Conduct a program on environmental awareness	*Tahsiniyyat* (embellishment)

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┌─────────────────────────────────────────────────────────┐
│           The *Tawhid* and *Shariah* paradigm            │
│                                                           │
│ Underlying principles:                                    │
│ *Hablun min Allah* (for the sake of Allah)                │
│ *Hablun min an-nas* (for the good of various stakeholders)│
└─────────────────────────────────────────────────────────┘
                            │
              ┌─────────────────────────────┐
              │      *Maqasid Shariah*       │
              │ (The objectives of *Shariah*)│
              └─────────────────────────────┘
                            │
              ┌─────────────────────────────┐
              │      *Maslahah ammah*        │
              │      (Public interest)       │
              └─────────────────────────────┘
                            │
        ┌───────────────────────────────────────────┐
        │  Islamic view of social responsibility and │
        │        *masuliyyah* (accountability)        │
        └───────────────────────────────────────────┘
                            │
          ┌─────────────────────────────────────────┐
          │ Islamic concept of CSR and the CSR       │
          │            management process            │
          └─────────────────────────────────────────┘
```
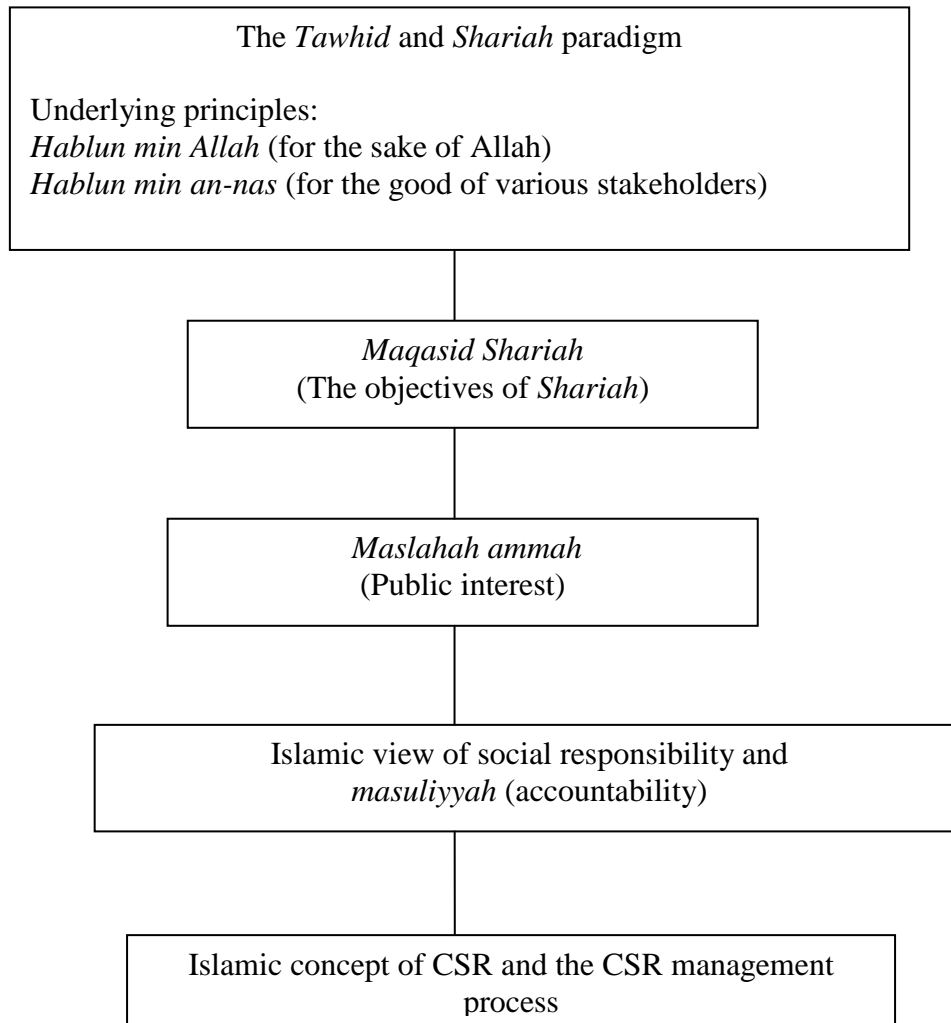
Figure 3.2
Conceptual Framework of the Islamic Concept of CSR and CSR Management Process:
Tawhid and Shariah Paradigm

3.4 Summary of the Chapter

This chapter discussed the issues related to a conceptual framework of CSR and the CSR management process from the Islamic perspective. The *Tawhid* and *Shariah* paradigm is employed as a foundation to understand the root of social responsibility of business in the Islamic context. In order to propose a framework to govern the relationship of a business entity to its various stakeholders, this study uses the underlying principles of *hablun min Allah* and *hablun min an-nas*. Further, other derivative concepts from the *Tawhid* and *Shariah* paradigm such as *maqasid Shariah* (the objectives of *Shariah*), *maslahah ammah* (public interest) and *masuliyyah* (accountability) are discussed to conceptualize the Islamic concept of CSR and the CSR management process. Thus, CSR may be viewed as a business commitment to fulfill religious, social and economic responsibilities for the benefit of stakeholders including the surrounding society and environment in order to attain *barakah* and *al-falah* (success in this life and the Hereafter).

Further, to manage the CSR activities in a systematic way, various stakeholders and their issues should be carefully examined based on level of *maslahah*. In this sense, the stakeholders' issues may be classified into *dharuriyyat* (essential), *hajiyyat* (complementary) and *tahsiniyyat* (embellishment). These levels of *maslahah* are used to prioritize the type of CSR activity that needs to be conducted in the calendar of events as well as to determine the sources of CSR funds. Then, for the purpose of developing a managerial guideline for the CSR management process, all of the above concepts should be considered to explain the process. The following chapter highlights the methods used in conducting this study.

CHAPTER FOUR: RESEARCH METHOD AND DESIGN

4.1 Overview of the Chapter

Qualitative research or inquiry is a type of scientific research to seek understanding on a given research problem or phenomenon from the perspective of specific individuals or a group of individuals involved in its natural settings (Denzin & Lincoln, 2008; Marshall & Rossman, 1995). Qualitative research can be employed when the nature of the research problem itself involves complex phenomenon such as feelings, thought processes and emotions that are difficult to explain and understand (Strauss & Corbin, 1998) as well as to understand a problem within its context or setting (Creswell, 2007).

Merriam (1988) and Creswell (2007) identify several characteristics of qualitative research such as: (i) concerned with process rather than outcomes; (ii) focusing on meaning (how people make sense of their life and experiences); (iii) the researcher is the primary instrument; (iv) involves a lot of fieldwork in the natural setting; (v) more descriptive using words and pictures; (v) inductive in nature (building concepts, theories, hypotheses rather than testing existing theories); (vi) multiple sources of data; (vii) emergent design (flexible in the research process regarding the research questions, data collection, sites visited); (viii) theoretical lens; and (ix) holistic account – developing a complex picture of the problem. Hence, this type of study offers a richer and better understanding of a specific social context and phenomenon regarding a certain issue or topic (Bedard & Gendron, 2004; Creswell, 2007) as well as enabling the researcher to build an alternative theory when the existing theory is not sufficient to provide an appropriate explanation for such phenomenon or just extend the existing theory (Creswell, 2007; Merriam, 1988).

According to Godfrey and Hatch (2007), in researching CSR activities involving diverse groups of stakeholders, a few research methodologies such as the case study, ethnographic methods and content analysis are available to be employed to understand the process of how managers decide on the types of CSR activities and the criteria they apply in selecting the targeted group. In Malaysia, most of the CSR literature employs: (i) content analysis in discussing the CSR practices particularly in regard to CSR reporting and disclosure (Abdul Hamid & Atan, 2011; Abdul Rahman *et al.*, 2010; Othman & Thani, 2010; Said *et al.*, 2009) (ii) surveys (Atan & Abdul Halim, 2011; Mohd Nor & Asutay, 2011; Muwazir *et al.*, 2012; Siwar & Hossain, 2009) to understand the level of CSR understanding and awareness among various companies' stakeholders including managers, consumers and local communities; and (iii) case studies (Wong & Ahmad, 2010) to examine the current state of CSR practices and how multi-national companies manage their stakeholders in relation to such practices.

In addition, several studies have conducted interviews with the key CSR players such as CSR experts (Lu & Castka, 2009), accounting professionals (Zulkifli & Amran, 2006) and senior managers (Wong & Ahmad, 2010) as well as with consumers (Abd Rahim *et al.*, 2011; Atan & Abdul Halim, 2011; Yam & McGreal, 2010) to explore their attitude and awareness towards CSR. These studies show the importance of the CSR discourse in Malaysia, but they provide little information on how companies manage CSR in practice. Moreover, to the best knowledge of the researcher, employing the case study as a research method to gain insights into the concept of CSR and the CSR management process from the Islamic perspectives has been virtually ignored.

Hence, this gap could be filled by this qualitative inquiry which focuses on one of the Islamic banks in Malaysia, namely, Bank Islam Malaysia Berhad (Bank Islam). In response to the objective, this study aims to develop an integrative managerial guideline on the CSR management process from Islamic perspectives through: (i) interviewing various key CSR players such as members of the management team, operational managers/staff as well as recipients of the CSR program; (ii) conducting six in-field observations on the CSR initiatives; and (iii) supporting the arguments and findings with documentation analysis which covers external and internal documents related to CSR reporting.

In a qualitative case study, considerable research design and data collection efforts are focused on the research questions (Berry & Otley, 2004; Scapens, 2004). Employing the case study design supports the explanatory nature of this study which is not controlling the behavioral events but rather explaining them. Advocates of case studies such as Stake (1995) and Merriam (1988) suggest that the case study knowledge is more concrete, more contextual, more developed by reader interpretation and relies on the determination of reference by the reader. In addition, according to Patton (1990), case studies are valuable in determining individual differences or unique variations from one program setting to another, or from one program experience to another and thus may help to answer the following research questions: (i) What is the concept of CSR for Bank Islam Malaysia Berhad? (ii) Why does the bank engage in and sustain CSR activities? (iii) What are the factors, benefits and challenges of CSR engagements? and (iv) How does the CSR management process take place?

4.2   Research Method

4.2.1   Single Case Study

A case study is a research method in social science studies (Creswell, 2007; Merriam, 1988; Ryan, Scapens, & Theobald, 2002; Yin, 2009) and interpretive case studies view this world as socially constructed and subjective (Scapens, 2004). Creswell (2007, p. 73) defines case study research as "a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded system (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audiovisual material, and documents and reports), and reports a case description and case-based themes". It allows researchers to gain holistic and meaningful characteristics of individual life cycles, organizational and managerial processes, neighborhood change, international relations, and the maturation of industries for the purposes of exploratory, descriptive and explanatory research rather than hypothesis testing (Yin, 2003).

Furthermore, case studies are usually used to study complex and contextual processes (Scapens, 2004; Yin, 2009). Yin (2009) also suggests that the case study method is used when the research questions are based on 'how' and 'why' and aim to understand the contemporary set of events over which the researcher has little or no control. The researcher can choose to conduct a single case or multiple case studies in a holistic or embedded unit of analysis. The unit of analysis in case studies is an individual, program, organization, event, activity or community (Patton, 1990; Stake, 1995) as well as decisions, implementation processes, and organizational changes (Yin, 2009). The focus of case study research is on one unit of analysis under which may be subsumed numerous

events, participants, or phases of a process (Merriam, 1988). Hence, in this study, the unit of analysis is an Islamic bank which has thousands of employees and many annual CSR initiatives to be managed for the sake of various stakeholders which can be viewed as the bounded system (Creswell, 2007; Merriam, 1988; Stake, 1995) of the study.

In addition, Merriam (1988) lists four essential characteristics of qualitative case studies: (i) particularistic – focusing on a particular situation, event, program or phenomenon; (ii) descriptive – the report of case study is a rich, thick description of the phenomenon under study; (iii) heuristic – illuminating the reader's understanding of the phenomenon by explaining the reasons; and (iv) inductive – for the most part relying on inductive reasoning for discovering new relationships, concepts and understanding. This qualitative case study approach is meaningful when the research concerns are more on understanding and describing a process rather than behavioral outcomes (Merriam, 1988) as well as when the concepts and context are not well defined because it can help to gain insights, understanding and explanations of certain phenomenon (Eisenhardt, 1989).

In accounting research, case studies can be categorized in different types such as descriptive, illustrative, experimental, exploratory, and explanatory case studies but the distinctions between them are not so clear (Ryan *et al.*, 2002; Scapens, 2004). Several accounting studies in various fields such as management accounting (Anderson, 1995; Norris, 2002), accounting information systems (Masanet-Llodra, 2006), and auditing (Alon & Dwyer, 2012) have used case studies to gain insights into the objectives of the studies. The case study design relies on the nature of the research questions (Yin, 2009), the amount of control of the issues under study, and the types of desired end products (Merriam, 1988).

An explanatory case study is used to explain the reasons for observed phenomenon and the focus of such research is on the specific case using a theory rather than to make generalizations (Ryan *et al.*, 2002; Scapens, 2004). Scapens (2004) also indicates that theory is used to provide convincing explanations of the observed phenomenon, and modification and development of new theory is needed if the existing theory could not be applied to understand or explain such phenomenon.

A number of studies have mapped the CSR management process, but most of these studies have been conducted in developed countries (for example: (Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Werre, 2003) and the cases that have been selected for the studies have been recognized globally and have strong reputations regarding CSR practices. Thus, there is a need for more research on the subject in developing countries as most of these countries are still struggling to understand and manage CSR practices especially from the Islamic perspectives. Furthermore, the present study involved most of the key players in managing the CSR practices which covers the top management team to the operational level of staff at the bank as well as the recipients of the program in order to determine the Islamic views of CSR and the CSR management process.

In line with that, Islamic banking and finance has been chosen as the focus for this study to conceptualize the Islamic perspectives on CSR because this sector shows a positive attitude towards social and philanthropic activities (Muwazir, Madun, & Noordin, 2013) and is a highly prominent sector in the economic development of Muslim countries and has been recognized internationally. This sector is now becoming a new global domain of venture capital, ethical investment and profit and loss sharing (Mohammed, 2007).

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Furthermore, according to the Economic Report 2010/2011 issued by the Ministry of Finance Malaysia, Islamic finance maintained an average growth of 20% in the past five years and various initiatives have been done to strengthen Malaysia's position in the Islamic banking and finance system globally. Furthermore, previous studies on Islamic perspectives of CSR (conception, practices and disclosure) are also based on the experience of Islamic banks and institutions in Malaysia and all over the world (Abdul Rahman *et al.*, 2010; Arshad *et al.*, 2012; Farook, 2007; Farook *et al.*, 2011; Haniffa & Hudaib, 2007; Hassan & Harahap, 2010; Maali *et al.*, 2006; Mohammed, 2007; Mohd Nor & Asutay, 2011; Muwazir *et al.*, 2013; Wan Abdullah *et al.*, 2011; Yusof & Bahari, 2011).

In addition, the Islamic banks have a social face (Mohammed, 2007) and the objectives of the banks are not only to make profits but also to help and develop the community surrounding the business and this is part of *fard kifayah*. In Islam, each business transaction should integrate the moral objectives of the society in order to promote social justice and fairness. For instance, the prohibition of interest (*riba*) in all bank transactions is a key principle in promoting socio-economic justice in Islam to avoid the unequal distribution of risk and reward among the parties involved. In sum, the four major characteristics of the Islamic bank as compared to the conventional bank are: (1) the prohibition of *riba* in all its transactions; (2) the profit and loss sharing arrangements; (3) the establishment of *Shariah* Supervisory Council (SSC); and (4) the purpose of the Islamic financial system is to maintain social responsibility and justice as well as making profit (wealth prosperity). Hence, with these characteristics and features of the Islamic bank, this study seeks to understand the CSR practices of Bank Islam.

In the Malaysian context, several studies reveal that the financial sector is one of the sectors that has the largest percentage of CSR information disclosure (Abdul Rashid & Ibrahim, 2002; Amran & Devi, 2008; Muhammad Jamil *et al.*, 2003). Hopefully, by disclosing more CSR information, they are also having good CSR management practices. Additionally, some of the previous studies on CSR practices of Islamic banks also chose Bank Islam as part of their sample or case (Abdul Rahman *et al.*, 2010; Hassan & Harahap, 2010; Wan Abdullah *et al.*, 2011). The case study should be carefully selected to help in answering the research questions and should be based on an underlying theoretical framework (Scapens, 2004). As the present study is based on the single case, then the case should be representative (Yin, 2009) of many other Islamic banks in the Islamic banking and finance industry in Malaysia. Additionally, the case should offer rich information from which more can be learned and should have a great deal of involvement with the issues under study in order to accomplish the objectives of the study (Lincoln & Guba, 1985; Patton, 1990). The above components could help define the characteristics of the case and the selection of the case should reflect those characteristics (Scapens, 2004).

In a case study research, the ability to access the field or company is a challenge (Creswell, 2007). For this study, a few Islamic banks and conventional banks that offered Islamic banking were approached by preparing and submitting a request and consent letter. The researcher approached branch managers or regional bank managers personally and managed to have a short meeting with them to discuss about this study. After some time passed, contact was made through telephone calls and emails to get their feedback. Two months later, only Bank Islam had agreed to be part of this study.

4.3   Data Collection

Typically, most data collection activities are conducted in a setting or field for a certain period of time to understand the contextual issues or phenomena. Such activities can be done in a variety of ways for qualitative data such as participant-observation, in-depth and open-ended interviews, questionnaires, and analysis of documentation (Patton, 1990; Scapens, 2004). These methods of data collection need to be planned carefully to ensure the accuracy and comprehensiveness of the study. During the fieldwork activities, establishing a good rapport and relationship with all the participants involved is necessary to build and maintain trust by respecting their norms and also considering ethical issues (Marshall & Rossman, 1995) for more credible data (Lincoln & Guba, 1985).

The strengths of qualitative data are: (i) the data are collected at the place where the phenomenon occurred in a specific situation; (ii) the data emphasize a focused and bounded phenomenon (e.g. people's lived experience); (iii) the data are rich and holistic; and (iv) the data cover a sustained period that is suitable to study any process (Miles & Huberman, 1994). Therefore, this study conducted semi-structured interviews, in-field observations and documentation analysis to gain rich and deep information about the story of CSR engagement and to create high internal validity for this study (Silverman, 2005). In addition, Arevalo and Aravind (2011) also suggest that conducting interviews with the CSR players and reviewing the CSR disclosures and reports may provide more understanding on the groundwork and details about the CSR engagement in an organization. Specifically, the data collections in the present study took place during the period of September 2010 to March 2013.

4.3.1 Semi-Structured Interviews

An interview is a conversation which involves the art of asking questions and listening (Denzin & Lincoln, 2008) with a purpose of obtaining descriptions of the world or life of the interviewees in order to interpret the meaning of the observed phenomena (Kvale & Brinkmann, 2009; Lincoln & Guba, 1985; Silverman, 2005). Usually, the interviews will be used as a main source in qualitative work (Bedard & Gendron, 2004; Merriam, 1988; Silverman, 2005) especially in case study research (Scapens, 2004; Yin, 2009) for in-depth knowledge about individuals' opinions, feelings, perspectives, thoughts or experiences of an event or issue (Kamla, Gallhofer, & Haslam, 2012; Merriam, 1988; Patton, 1990; Silverman, 2005). The information gathered covers reconstruction of the past, interpretation of the present and prediction the future (Lincoln & Guba, 1985).

According to Kvale and Brinkmann (2009), there are seven stages of research interviewing: (i) thematizing an interview; (ii) designing; (iii) interviewing; (iv) transcribing; (v) analyzing; (vi) verifying; and (vii) reporting. These stages will help the researcher to conceptualize and plan a whole interview session. The most common type of interview is the face-to-face individual interview (Fontana & Frey, 2008; Merriam, 1988). The advantages of conducting personal interviews are the ability of the interviewer to notice and respond to the participant's misunderstandings, to control the context of interviews and to gain the highest possible response rate. Therefore, semi-structured interviews were conducted in this study to construe the realities that guide the process of how CSR activities have been designed, implemented and evaluated in the case organization. Normally, this type of interview starts with specific questions and then follows with other probing questions (Cooper & Schindler, 2008).

In this study, the interview sessions were conducted at: (i) Wisma Bank Islam, Jalan Dungun; (ii) Menara Bank Islam, Jalan Perak; (iii) home projects (Pokok Sena: Kampung Mata Ayer and Kampung Kuala Pai, Kulim: Rumah Cahaya Sungai Tengas); (iv) Bank Islam branches (Pokok Sena, Kulim, UUM, Medan Mara and Sungai Petani); (v) PINTAR program (Sekolah Kebangssan Haji Hassan Itam, Alor Setar and Sekolah Kebangsaan Kuala Kupang, Baling); (vi) *zakat* contribution (Students Affairs Department of UUM); and (vii) Kulim Social Welfare Office (Pejabat Kebajikan Masyarakat Daerah Kulim).

The duration of each interview varied from less than an hour to more than one hour and a half. The duration depended on the responses of the interviewees as well as their roles and level of involvement in the CSR management process at the bank. The total contact time for all interview sessions was 1,591 minutes which is equivalent to 26 hours and 31 minutes. In order to enhance the accuracy of the respondents' input, the interview sessions were recorded with the interviewees' permission and the interviews were subsequently transcribed verbatim. Additionally, some of the key points that were highlighted during the conversation were written down in the field notes.

The interview sessions were done as either individual or group interviews. An individual interview is an interaction of one interviewer with a single respondent or participant, while a group interview is an interaction between one interviewer with more than one respondent (Cooper & Schindler, 2008). In this study, there were 22 interview sessions and six of these were group interviews. The group interviews occurred when the targeted respondent invited his/her colleagues or family members to join the interview session.

4.3.1.1 Interview questions

Prior to the fieldwork, a semi-structured interview protocol was developed by specifying four main themes to permit the respondents to respond in their own words. The questions were formulated based on the research questions, the literature and the published guidelines such as the AAOIFI Accounting, Auditing and Governance Standards (for Islamic financial institutions), Islamic ethical philosophy, the *Tawhid* and *Shariah* paradigm, the Bursa Malaysia Framework of CSR, and also the WBCSD guidelines. In formulating the interview questions, several aspects should be considered such as: (i) whether the terms that will be used will be familiar to the respondent; (ii) the language used by the respondent; and (iii) the need to avoid using labels altogether so that respondents would give their own interpretation on the subject under study (Patton, 1990). The languages used in the interview sessions were English and Bahasa Melayu.

The interview questions were developed to elicit an understanding of how the CSR management process takes place at the bank and why the bank engages in and sustains the CSR activities. Specifically, the questions comprised four main themes: (1) the concept of CSR; (2) the CSR management process; (3) factors that influence CSR initiatives and its challenges; and (4) benefits of CSR. The themes were derived from the literature and the relevant theoretical perspective as shown in Table 4.1. In addition, the interview questions revolved around the respondents' practices and experiences of managing the CSR initiatives. Therefore, three sets of questions were prepared for the three groups of respondents in order to reflect and respect their roles and positions in the CSR management process.

A series of prompt questions was also prepared in order to maintain the discourse or to seek clarification of responses. Appendix A presents the questions that were used for data collection after conducting a pilot test. The pilot test was conducted with two respondents (one staff of the bank's CSR Department and one staff of the bank's Corporate Communications Department) on 2[nd] September 2010 at Bank Islam at Jalan Dungun, Bukit Damansara, Kuala Lumpur. The objective of conducting the test was to improve and modify the questions in the interview guideline before the final version was used in the actual study.

Table 4.1
Interview Question Dimensions and Their Relevant Theoretical Lens

Themes/Dimensions	Relevant theoretical lens
The concept of CSR	1. AAOIFI Accounting, Auditing and Governance Standards (for IFI) 2010 2. *Tawhid* and *Shariah* paradigm (Dusuki & Abdullah, 2007a; Haniffa & Hudaib, 2002; Muhamad, 2007; Muwazir *et al.*, 2006) 3. *Maqasid Shariah* (Dusuki & Abdullah, 2007a; Haniffa, 2002; Mohammed, 2007) 4. *Maslahah ammah* (Darus *et al.*, 2013; Dusuki & Abdullah, 2007a) 5. Accountability *(masuliyyah)* (Abdul Rahman, 1998; Haniffa & Hudaib, 2010; Ismail & Abdul Latiff, 2000; Khan & Karim, 2010; Napier, 2009)
The CSR management process	1. Designing and implementing CSR (Darus *et al.*, 2013; Dusuki & Abdullah, 2007a; Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003) 2. Managing stakeholders and their issues (Beekun & Badawi, 2005; Darus *et al.*, 2013; Dusuki & Abdullah, 2007a)
Factors influence CSR initiatives and its challenges	Internal and external factors of CSR (Dusuki, 2008a, 2008b; Muwazir *et al.*, 2006; Werre, 2003)
Benefits of CSR engagements	Dusuki and Abdullah (2007)

4.3.1.2 Interviewees

In qualitative case studies, the decision regarding who to interview is subject to "what the investigator wants to know and from whose perspectives the information is desired" (Merriam, 1988, p.76) and a consideration of who can contribute to the understanding of the phenomenon under study (Creswell, 2007). Moreover, there is no definite answer about the right number of interviews, since it depends on the questions that are being asked, the data being gathered, the analysis that is in progress, the findings that will be used and the resources that are available to support the study (Merriam, 1988; Patton, 1990).

In this study, 22 in-depth interviews were conducted with 29 respondents as shown in Table 4.2 at different levels of management as well as operational managers/staff at the bank in several departments to explore the factors of influence and the procedures involved in decision-making regarding the CSR initiatives. It is believed that these respondents were those who were responsible for the CSR management process at the bank. This study also interviewed the recipients of the CSR benefits of the bank including individual and organizational beneficiaries. The selection of the correct persons to be interviewed was crucial because the responses given by the interviewees would influence the findings of this study. The interviewees were selected based on their experience and roles in designing and implementing the CSR initiatives at the banks. Appendix D presents the profile of the respondents.

Table 4.2
Summary of Respondents' Profile and Contact Hours

Items	Description
Total number of respondents	29 respondents
Group of respondents	Group 1- 4 respondents
	Group 2 - 13 respondents
	Group 3A - 6 respondents
	Group 3B - 6 respondents
Total contact hours	1,591 minutes, equivalent to 26 hours and 31 minutes
Group contact hours	Group 1- 378 minutes
	Group 2 - 759 minutes
	Group 3A - 342 minutes
	Group 3B - 112 minutes
Gender	16 - male
	13 - female

In order to gain a meaningful understanding of the groundwork of CSR engagement by the bank, the respondents of this study covered internal and external parties who were directly and indirectly involved in such initiatives. Then, the respondents were divided into three groups, which are: (i) management team; (ii) operational managers or staff; and (iii) beneficiaries of the CSR initiatives. The members for each group are shown in Table 4.3. However, most of the previous studies have focused on the management team of a company (Arevalo & Aravind, 2011; Hine & Preuss, 2009), key CSR players in a company (Caroline D. Ditlev-Simonsen, 2010; Cooke, 2010; Knox & Maklan, 2004) or certain groups of stakeholders like customers, employees, CSR experts and media commentators (Abd Rahim *et al.*, 2011; Cooke, 2010; Mohd Nor & Asutay, 2011; Yusof & Bahari, 2011) to discuss the CSR engagements.

In the present study, the first group of respondents was the management team of the bank (based on the Bank Islam Annual Report 2012). It was important to get some input from the CEO of the organization because "if researchers want to know how companies

respond to social demands, they ask top executives, preferably the CEO" (Wood, 1991, p. 707). In addition, the actions and decisions made by the senior management will influence the organization's cultural and moral context (Mohammed, 2007). Then, a list of potential interviewees was collated and discussed with key informants such as the Assistant General Manager of Strategic Planning and the Head of Corporate Communications in order to identify the right person who was involved directly in the CSR process and to balance the views. The key informant refers to a person who can provide a useful insight into the issues of the study and can initiate the access to multiple sources of evidence (Yin, 2009).

The second group comprised the operational managers or staff who were involved directly and indirectly in the CSR management at the bank such as the officers in the CR Department, managers in the Finance Department, regional managers, branch managers and also representatives of the employees of the bank. They were the persons responsible for the process of designing, implementing and monitoring the bank's CSR initiatives. Their inputs and cooperation were significant to gain an overview of the management of CSR engagement of the bank. This group was represented by 13 respondents and heir commitment and supports were important to the success of the bank's CSR program. This approach was supported by Virakul, Koonmee and McLean (2009) who state that, by interviewing other line managers (excluding CSR managers), the information obtained should be more balanced and broad to cover all aspects of the CSR engagements.

The last group is the beneficiaries of the CSR initiatives who were divided into organizational beneficiaries and individual beneficiaries. The organizational beneficiaries included PINTAR schools, universities and government agencies that were responsible

for managing and distributing the benefits in-kind on behalf of the bank (with close monitoring and specific guidelines) to their students and target groups. The individual beneficiaries are individuals who received direct benefits from the bank such as recipients of the Home Project 2010 at Kedah. The involvement of the beneficiaries group was necessary to gain insights into their perspectives on the values, impacts and to get their feedback on the bank's CSR programs.

Table 4.3
Three Groups of Respondents

Group of respondents	Description
Management team (4 respondents)	i.General Manager of Strategic Relations ii.Assistant General Manager of Strategic Planning iii. Assistant General Manager of Corporate Communications iv.Head of *Shariah* Department
Operational managers/staff (13 respondents)	i.Assistant General Manager of Central Finance ii.Manager of Accounting and Operations iii.Regional Consumer Business Manager of Kedah/Perlis iv.Relationship Manager of Cash Management v.Branch Manager of Bank Islam UUM vi.Branch Manager of Bank Islam Pokok Sena vii.Branch Manager of Bank Islam Kulim viii.Branch Manager of Bank Islam Sungai Petani ix.Manager of Corporate Responsibility x.Assistant Manager of Corporate Responsibility xi.Secretary of *Kelab Kebajikan Bank Islam* xii.Committee Member of *Kelab Kebajikan Bank Islam* xiii.Staff of Bank Islam Pokok Sena
Organizational beneficiaries -3A (6 respondents)	i. Deputy Vice-Chancellor (Student and Alumni Affairs) of UUM ii. Students Welfare Officer, Students Affairs Department of UUM iii.Principal of Sekolah Kebangsaan Haji Hassan Itam iv.Principal of Sekolah Kebangsaan Kuala Kupang v.Vice Principal I of Sekolah Kebangsaan Kuala Kupang vi.Kulim Social Welfare Officer
Individual beneficiaries -3B (6 respondents)	i.Beneficiary of "Projek Bantuan Rumah: Kedah", Kampung Kuala Pai, Pokok Sena ii.Beneficiaries of "Projek Bantuan Rumah: Kedah", Kampung Mata Ayer, Pokok Sena (3 respondents) iii.Beneficiaries of "Projek Bantuan Rumah: Kedah", Rumah Cahaya Sungai Tengas, Kulim (2 respondents)

4.3.1.3 Interview protocol

Prior to the actual interviews, an outline indicating the various points related to the CSR issues was sent to the interviewees (subject to request) through emails. Then, the interview protocol (Appendix A) was designed and centered on the four research aims (CSR conception, CSR management process, factors and challenges of CSR initiatives, and benefits of engaging in CSR activities). Each aim was supported with a list of probing questions to allow the respondents to elaborate upon the first questions and to provide specific examples of the CSR activities and CSR process.

Before the commencement of the interview, the nature of the research was explained to the respondents and their questions were solicited for any clarification before proceeding with the questions. This was followed by an explanation of how the interview would be conducted. It is important for participants to understand the purpose of an interview in order to enhance their motivation for open and detailed responses (Patton, 1990). The next step was to obtain some non-sensitive background information, and engage in general conversation about the Bank Islam as well as the respondent's particular role. All these steps were done to establish good rapport with the participants by sharing information that was not directly related to the study (Bedard & Gendron, 2004). Patton (1990) defines rapport as respect and care to the person being interviewed. Fontana and Frey (2008) indicate that gaining trust from the participant and establishing rapport with the participant are crucial to the success of interviews. In addition, the sense of neutrality towards the interviewees' statements should be practiced (Patton, 1990).

4.3.2 In-Field Observation

Observation is considered as part of the research method to observe human activities (including behaviors), events, and the physical setting in which the phenomenon under study takes place (Marshall & Rossman, 1995) as well as to note the body language and gestures of participants during the interview sessions (Angrosino, 2008). From the in-field observations, the details of people's activities, actions, organizational processes, and interpersonal interactions can be identified regarding what occurred and how it occurred (Patton, 1990) in depth.

Furthermore, Angrosino (2008, p. 165) argues that observations "seek to construct explanatory frameworks only after careful analysis of objectively recorded data". Patton (1990) states that there are six advantages to the researcher in conducting in-field observations: (1) enables the researcher to understand the program context; (2) allows the researcher to be open, discovery-oriented and inductive in approach; (3) provides the opportunity to see the real picture of the daily routine activities or discover something that no one pays attention to; (4) enables the researcher to gain information that participants may not be willing to discuss during an interview; (5) permits the researcher to digest the selective perceptions (perceptions from interviewees) for a comprehensive view; and (6) gives an opportunity to the researcher to access personal knowledge and direct experience as resources for helping to understand and interpret the data.

In designing the in-field observations, Patton (1990) proposes five dimensions of various approaches to observations: (i) the role of the observer; (ii) portrayal of the role of the observer; (iii) portrayal of the purpose of observations; (iv) duration of observations; and (v) focus of the observation. Yin (2009) classified two types of observation: direct and

respondent. The direct observation occurs when a researcher acts as a passive observer of an organization's meetings, events and activities and the researcher is just taking notes and photograph at the sideline of the event (Yin, 2009). In the respondent observation, the researcher takes a role and participates in the events being studied (Yin, 2009) such as serving as a committee member or a respondent in the organization's events or workshops.

Therefore, in order to describe and gain a better understanding of the CSR management process especially in designing and implementing the CSR initiatives, six direct observations were conducted: (i) the Corporate Responsibility Program of Bank Islam at Masjid An-Nur, Pokok Sena; (ii) the Home Project 2010 at Kampung Kuala Pai, Pokok Sena; (iii) the Home Project 2010 at Kampung Mata Ayer, Pokok Sena; (iv) PINTAR school (2008-2010) at Sekolah Kebangsaan Haji Hassan Itam, Simpang Empat, Kedah; (v) *zakat* hand-over ceremony at Hospitality Restaurant, UUM; and (vi) the Home Project 2010 at Rumah Cahaya Sungai Tengas, Kulim.

It is important to collect data on naturally occurring behaviors in their usual context in order to have a clear picture and gain a better understanding of the process involved (Virakul *et al.*, 2009). The issue of the length of time for observations to take place depends on the purpose of the study (Merriam, 1988). While the research questions help the researcher to focus on what to observe, a 'sensitizing concept or framework' can be used to highlight the importance of certain events, activities and behaviors (Patton, 1990). However, a few factors must also be considered such as: (i) permission to enter the organization (Merriam, 1988; Yin, 2009); (ii) the reactions of the group's members to the presence of the observer (Patton, 1990); (iii) the potential of not obtaining a 'real picture'

of events (Lapsley, 2004) because only the external behaviors are observed (Patton, 1990); (iv) the issue of researcher's bias (Merriam, 1988; Yin, 2009); and (v) and the ethical concerns of the researcher (Angrosino, 2008) while engaging in-field observations. According to Lapsley (2004), studying the process of decision-making within a group involves several aspects that the researcher needs to be aware of, especially group behaviors, evaluation of alternative courses of action and also understanding any implicit sanctions. Hence, observations should be viewed as contexts for interaction among all the respondents involved in the research not merely as a method per se (Angrosino, 2008).

During the observation, field notes should be available to record what has been observed and how it is being treated (Silverman, 2005) and all of these records need to be written down (writing notes) in full description as soon after the observation as possible (Merriam, 1988) for the purpose of recalling the information gathered. In addition, Merriam (1998) indicates that the actual content of observation consists of verbal descriptions of the setting, the people, the activities, direct quotations or the substance of what people said, the observer's comments (including the researcher's feelings, reactions, hunches, first interpretations and working hypotheses. Creswell (2007) suggests that the researcher should prepare an observational protocol (in the form of a table with consists of descriptive and reflective notes). Hence, in the present study, the observation protocol was prepared (Appendix B) to record what was observed in the natural settings to ensure that every single action and moment was properly recorded for further analysis.

4.3.3 Documentation Review

Lincoln and Guba (1985) indicate several reasons for why documents and records are important sources of information: (i) always available and low-cost; (ii) the information is stable; (iii) rich source of information; (iv) legally accessible; and (v) nonreactive. Merriam (1988) classifies the documents into several types such as: public or archival records (formal and informal documents); personal documents (diaries, letters, photo albums); physical trace material (measuring record or evidence record to support information); and also documents prepared by the researcher specifically for learning purposes (diary or log book activities and photographs). All these records and documents relevant to CSR should be reviewed in order to gain stable and accurate data (Merriam, 1988; Yin, 2009).

In addition, the data from these documentation sources are very useful for cross-checking in order to reduce selectivity and reporting bias (Maon *et al.*, 2009) as well as to understand behind-the-scenes processes and how those came into being (Patton, 1990). For this study, internal and external documentation related to CSR was reviewed to support the primary information (from interviews and observations) as shown in Table 4.4. All of these evidences need to be recorded in an ordered and systematic manner for further analysis and reflection (Scapens, 2004). Yin (2009) suggested three principles in the data collection process: (i) using multiple sources of evidence; (ii) creating a case study database; and (iii) maintaining a chain of evidence. The multiple sources of evidence can be addressed if the study uses data triangulation (Yin, 2009) and the validity and reliability of these sources of evidence need to be assessed (Patton, 1990) (the validity and reliability issues are discussed in more detail in Section 4.5).

Table 4.4
List of Documentation Review

No.	Type of documentation	Documentation
1.	Internal	1. Bank Islam Annual Report (1984, 2005, 2006,2007, 2008, 2009, 2010, 2011, 2012, 2013) 2. Bank Islam's websites 3. Slide presentation of the bank's managers in several occasions (seminar and workshop) 4. Internal guidelines on zakat management: i) *Garis Panduan Pengendalian Zakat Bank Islam kepada Pelajar di Universiti dan Kolej* ii) Business Zakat Payment Guideline of Bank Islam Malaysia Berhad (2012) 5. Documentation of *Kelab Kebajikan Bank Islam* - Membership form - Background information of *Kelab Kebajikan Bank Islam*
2.	External	1. Local newspapers 2. Websites: i) PINTAR Foundation's website ii) Sekolah Kebangsaan Haji Hassan Itam iii) Sekolah Kebangsaan Kuala Kupang iv) Bank Negara Malaysia v) The Putrajaya Committee on GLC High Performance (PCG) 3. Bursa Malaysia's CSR Framework (2006) 4. The Silver Book (2006) 5. Accounting, Auditing and Governance Standards for Islamic Financial Institutions (2010) 6. Letter to PINTAR's school

For this study, data were collected and reviewed from various sources of evidence like interviews, in-field observations and documentation analysis. The data from these multiple sources were in the form of audio/video recordings, pictures, transcripts and field notes. Audio recording is an important instrument to record the interview sessions and to ensure the accuracy of the interview transcriptions. Pictures and video recording can also help to recall and capture anything that occurred at the setting that is interesting to the researcher as evidence to support data analysis. As a main source of data, interview

transcripts should be stored at a secured and accessible place for further inspection and analysis. Moreover, field notes are also important in conducting qualitative work because they contain a description of what has been observed (location, time, date, who was in attendance, physical settings, social interaction, what activities took place) that is valuable to the researcher for future recall (Patton, 1990). The data must be recorded in accurate, factual and thorough ways and avoid irrelevant descriptions (Patton, 1990) or personal interpretations.

Moreover, all of this evidence needs to be converted into a more formal record (e.g. word processed) as soon as possible (Scapens, 2004) as part of the case study's database. The database should be organized topically or chronologically (Merriam, 1988). Yin (2009) proposes that there are two separate collections in the case study's database: the data or evidentiary base, and the report to increase the reliability of the study. In maintaining the chain of evidence, the flow of the research should be designed carefully for the reader to easily trace back the dual direction of the study (from conclusion back to research questions and from questions to conclusion) (Yin, 2009). The objective of maintaining the chain of evidence is to do a cross-reference between the case study report, database, citations to specific sources in the database, the protocol and the research questions (Yin, 2009).

Hence, in this study, the interview questions in the interview protocol were revised in a few times to reflect all the research questions. After that, the researcher had to identify the sources of evidence (whether from interview, observation or documentation) to answer the research questions. For instance, the first research question aimed to determine the concept of CSR at the bank. The researcher had to decide which group of

respondents and what type of documentation would provide sufficient information to answer the question. To assist the researcher, research mapping and the case study database were used to illustrate the flow of the research.

During the data collection process, several constraints were faced: (i) the reshuffle of the bank's officers to other departments or other institutions meant that new officers may not have had enough information to answer the question on the previous practices of CSR; (ii) the respondents' work commitments meant that interview sessions were sometimes cut short; (iii) the limited availability of some respondents to be part of the study led to appointments being postponed three to four times; and (iv) some of the interview sessions were conducted outside the respondents' offices, which led some of them to invite their friends or colleagues to join the session (then, the group interviews were conducted).

4.4   Data Analysis

In conducting qualitative research, the researcher has to deal with a great bulk of data from field notes, transcripts of interviews, documents and other reports, pictures or photos, records of meetings, newspaper cuttings and other formal and informal information. The process of analyzing these data is a dynamic and ongoing activity (Merriam, 1988) and starts together with data collection (Lincoln & Guba, 1985). The data from these sources need to be converted into analyzable text which can be reduced, displayed and used to draw conclusions (Miles & Huberman, 1994). Basically, the central steps in analyzing qualitative data are coding the data (reducing the data into meaningful segments and assigning names for the segments), combining the codes into broader categories or themes, and displaying and comparing the data in the form of graphs, tables and charts (Creswell, 2007).

4.4.1 Analyzing Interview Data

The interview data for this study were analyzed according to the steps recommended by Miles and Huberman (1994) and Creswell (2007). There are three stages of qualitative data analysis: (i) data reduction; (ii) data display; and (iii) conclusion drawing/verification. In data reduction, data can be reduced through the process of selecting, focusing, summarizing, paraphrasing or subsuming in larger patterns and transforming the data to written-up field notes. This process is actually started before the data collection process, and continues during and after fieldwork until the final report is done (Miles & Huberman, 1994).

In the second process, the researcher has to display the data in organized and compressed ways to lead easily to the conclusions. The data can be displayed in many types of matrices, graphs, charts and networks. The matrices format allows data to be displayed with defined rows and columns while the networks format is a series of 'nodes' with links between them (Miles & Huberman, 1994). In the last process, the researcher starts to decide the meaning of the data by noting regularities, patterns (differences or similarities), explanations, possible configurations, causal flows, and propositions. The competent researcher always make light conclusions by maintaining openness and a degree of skepticism (Miles & Huberman, 1994). The conclusions are drawn from several tactics such as noting patterns or themes, building a logical chain of evidence, making comparisons, making metaphors, testing if–then relations, seeing plausibility, clustering, making conceptual/theoretical coherence and many more. In sum, Figure 4.1 illustrates the process of analyzing interview data.

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┌─────────────────────────────────────────────────────────┐
│    Transcribing the interview as per record - verbatim    │
└─────────────────────────────────────────────────────────┘
                          ↓
┌─────────────────────────────────────────────────────────┐
│            Developing as many as sub-themes               │
└─────────────────────────────────────────────────────────┘
                          ↓
┌─────────────────────────────────────────────────────────┐
│        Classifying the sub-themes into main themes        │
└─────────────────────────────────────────────────────────┘
                          ↓
┌─────────────────────────────────────────────────────────┐
│   Reallocating and relating the sub-themes to several other │
│        themes that have been emerged from data            │
└─────────────────────────────────────────────────────────┘
                          ↓
┌─────────────────────────────────────────────────────────┐
│   Identifying patterns, explanations, flow of process, making │
│   comparisons, chain of evidence, possible relationships to relate │
│     to the theories and to propose conceptual framework.   │
└─────────────────────────────────────────────────────────┘
                          ↓
┌─────────────────────────────────────────────────────────┐
│  Finding a story line formulated from sub-themes and main themes │
└─────────────────────────────────────────────────────────┘
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Figure 4.1
Process of Analyzing Interview Data
Sources: Adapted from (1) "Qualitative Data Analysis: an Expanded Sourcebook" by Matthew B. Miles and A. Michael Huberman, 1994, (2nd ed) and (2) "Qualitative Inquiry & Research Design: Choosing among Five Approaches" by John W. Creswell, (2007).

Hence, a series of interview transcriptions was prepared. As stated earlier, some of the interviews were conducted in *Bahasa Melayu* or mixed (English and *Bahasa Melayu*), and direct quotations and extracts from the interviews were sometimes translated versions of the original transcribed interviews. In that sense, the translation process should be done cautiously to avoid loss of the interviewees' meaning (Kamla *et al.*, 2012). The interviewees in the present study were given a chance to check the translated versions through the member checking form (Appendix E). In addition, all of these interview transcriptions were analyzed individually in order to capture the themes that emerged from the process and some of relevant and interesting issues were highlighted to identify common themes that emerged in the interviews.

Then, all of these common themes were classified into four main themes or dimensions: (i) the conception of CSR; (ii) the management process; (iii) the factors and challenges; and (iv) the benefits of CSR. During the process of theme development, a table with four columns was prepared for each interview transcription. The themes and patterns can be identified by preparing diagrams or charts to link the various issues from several sources of evidence (Ryan *et al.*, 2002). After that, a few other themes emerged from the data such as: (i) CSR programs or initiatives; (ii) CSR improvements; (iii) CSR budgeting; (iv) sources of CSR funds; (v) stakeholder management; (vi) *zakat* management; and (vii) CSR communications and reporting. Then, after coding and integrating the themes that emerged, several meaningful patterns were determined to capture the concept of CSR and the CSR management process. Since this study focused more on the process, three CSR initiatives ("Projek Bantuan Rumah": Kedah, PINTAR program and *zakat* contribution to universities - UUM) were selected and discussed in detail (step-by-step process) in order

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to gain insights into the process of CSR engagement at the bank for the period under review. Lastly, all of these findings were narrated interestingly in order to capture the respondents' feelings and experiences of the bank's CSR engagements.

4.4.2 Documentation Analysis

In qualitative research, analyzing formal and informal documents is crucial to access rich information and to understand the issues under study (Marshall & Rossman, 1995). A researcher should anticipate as many different documentation sources of information as possible. Other than being part of the triangulation process, the purpose of analyzing documents is to provide the researcher with a basic source of information on historical data about the program (background, activities and processes) and give the researcher ideas on the important questions to be asked through more in-field observations and interview sessions (Patton, 1990). In addition, the documents analysis offers some advantages like cost and time saving. Also, when the subject is particularly sensitive, researchers can refer to documents rather than re-interview the respondents (Gray, 2009).

For the purpose of this study, all the relevant documents (as shown in Table 4.4) were analyzed through qualitative content analysis. Content analysis as defined by Bryman and Bell (2011) is an approach to analyze documents and texts based on pre-determined categories or themes in a systematic and replicable manner. The approach can be used in qualitative and quantitative research. For the qualitative content analysis, Bryman and Bell (2011) suggest that it is a process of identifying themes in the materials being analyzed. The process involves iterative steps in which the themes or categories that have been extracted from the documents should be constantly revised and usually left implicit (Bryman & Bell, 2011).

According to Yin (2009), documentation analysis is used to corroborate data from interviews and also to make inferences. In this study, the main themes and a few other themes that emerged from the interview data were employed to analyze the documents. Then, for the coding process, the unit of coding consists of words, sentences, paragraphs, sections or the whole documents (as a context unit). The objective of the coding process is to identify as many themes (pre-determined themes and other new themes) that emerged from the data as possible. After analyzing the documents, several other themes emerged, such as (i) environmental issues; (ii) joint-venture CSR programs; (iii) *Kelab Kebajikan Bank Islam*; (iv) stakeholder awareness; and many more. To guide this process, a template for documentation analysis has been prepared as shown in Appendix C.

4.5 Quality of Qualitative Research

Regardless of the type of research, whether quantitative or qualitative research, validity and reliability are concerned with how a study has been conceptualized and the way the data are collected, analyzed and interpreted to represent what is happening in the field (Merriam, 1988). For instance, Lincoln and Guba (1985) use the criteria of credibility, transferability, dependability, and conformability to assess the trustworthiness of case study research. Yin (2009) advocates four tests, namely, construct validity, internal validity, external validity and reliability, to measure the quality of research design. Validity is also known as credibility (Lincoln & Guba, 1985), truth (Silverman, 2005) and validation (Creswell, 2007) and is concerned with accuracy of the data interpretation to produce findings that reflect the real settings. Validity in case studies can be increased by using a wide range of data and making multiple-case sampling (Miles & Huberman,

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1994). Validity can be divided into internal and external validity. However, Yin (2009) suggests three ways can be used to construct validity on appropriate measurements of the concept: (i) using multiple sources of evidence; (ii) establishing a chain of evidence; (iii) having key informants to review the draft of case study report.

Internal validity is used in explanatory studies through identifying causal relationship where one condition will lead to another during data analysis (Yin, 2009). Merriam (1988) refers to internal validity as a way to know whether the findings of the study match with reality. Validity relates to whether there was an appropriate control within the study to increase the credibility of the evidence and the results drawn using triangulation techniques (Scapens, 2004). Triangulation is a useful technique to enhance credibility and validity and also overcome the weaknesses or bias of the qualitative data collection and analysis process (Creswell, 2007; Patton, 1990). The idea of triangulation is derived from the belief that, even when employing different methods or approaches, the results are still the same. In addition, combining several varieties of research techniques and approaches can create different insights into the phenomenon to provide independence confirmatory evidence (Lapsley, 2004). Patton (1990) suggests four types of triangulation: (i) data triangulation; (ii) investigator triangulation; (iii) theoretical triangulation; and (iv) methodological triangulation.

Hence, this study used data triangulation as a means to facilitate validation of the data through cross-verification of more than two sources of data (from a series of interviews, in-field observations and documentation analysis) to cover a wide range of historical and behavioral issues (Yin, 2009) and to check the consistency of the information gathered (Patton, 1990). For instance: (a) comparing the data from the interviews with

observational data and other related written documents and evidence; (b) tracking the consistency of what people say about something over time; and (c) comparing the views from different people (management team, staff of CSR Department, customers and beneficiaries of CSR initiatives).

In addition, Lincoln and Guba (1985) and Merriam (1988) also discuss in detail how to establish credibility (internal validity) through several techniques: (a) engage in activities that can produce credible findings (prolonged engagement, persistent observation, and triangulation); (b) peer debriefing such as requesting a colleague to critique and comment to improve the study; (c) negative case analysis by refining working hypotheses to generate more information; (d) referential adequacy by checking preliminary findings and interpretation with raw data; (e) member participatory modes of research (involving participants in all phases); and (f) address researcher bias (clarify the researcher's assumptions, worldview and theoretical orientation).

Furthermore, member checking or respondent validation might also be used to improve the accuracy, validity (Creswell, 2007; Lincoln & Guba, 1985; Silverman, 2005) and transferability of a study (Lincoln & Guba, 1985). The respondents' feedback or verification can serve as a check on the viability of the researcher's interpretation of the data gathered (Silverman, 2005). Member checking is important in qualitative research because this kind of research involves interpretation. This process can be done during the interview process or at the end of the study. During the interview session, the information gathered should be restated and summarized; then, the respondents should verify and determine the accuracy of the interpretation (Bedard & Gendron, 2004). The cycle of member checking is complete when the researcher shares all the findings with the

respondents involved and they analyze the findings and comment on them. This process provides the opportunity to respondents to assess the adequacy of the data and preliminary findings and to improve the accuracy of the data with additional information (Lincoln & Guba, 1985). In the present study, the respondents were invited to either affirm the summaries of their feelings, thoughts and experiences or correct them through member checking forms that were sent to them via emails and personal visits. The purpose of this process was to provide findings that are authentic and original. Hence, other than data triangulation, member checking and peer debriefing were used to improve the credibility and validity of this study.

Meanwhile, external validity involves establishing that the findings can be generalized to other settings (Merriam, 1988; Scapens, 2004; Yin, 2009). The generalization in the case study method involves looking for theoretical generalization rather than statistical generalization (Ryan *et al.*, 2002; Scapens, 2004; Yin, 2009). Indeed, the issue of generalization in case study research relies on sampling procedures (normally using many cases/multiple cases) and also selecting representative cases (Creswell, 2007). However, Lincoln and Guba (1985) prefer to discuss the 'transferability' of the findings from one context to another and 'fittingness' in comparing the degree of different contexts. It is because the theory is used to explain the phenomenon if the result from the observations is supported by the existing theory and, if not, the theory needs to be modified or the new theory should be developed (Scapens, 2004). Hence, Merriam (1988) summarizes that to improve the generalizability of the findings, the case should be typical and the description of the story should be rich and thick.

Furthermore, according to Scapens (2004, p. 268) "reliability is the extent to which evidence is independent of the person using it and validity is the extent to which data are in some sense a 'true' reflection of the real world". Reliability is about demonstrating that the operations of a study can be replicated with the same findings (Merriam, 1988) by developing a case study protocol and a case study database (Yin, 2009). Then, reliability can be increased if the researcher produces detailed field notes, using a tape for recording, and transcribing according to the tape (establishing a good and stable coding process) (Creswell, 2007; Silverman, 2005). However in qualitative research, the issue of reliability is problematic because the human behavior is never static and the real world always changes (Marshall & Rossman, 1995) and many interpretations can be made to explain what is happening (Merriam, 1988).

In addition, the reliability and validity harmonize with each other because findings will be considered valid if other studies, using the same framework and design, produce the same results (Merriam, 1988). To overcome this issue, Lincoln and Guba (1985) suggest using the terms "dependability" and "consistency" to replace the term reliability and to apply several techniques such as: declaring the researcher's position (assumptions and theory); triangulation; and audit trail (Merriam, 1988). Thus, to enhance the reliability of this study, a case study database was developed, every detail was recorded in the field notes, audio tape recording was used for recording, and a transcription process was conducted after listening three times to the record of the interview (to assimilate the language, intonation and meaning of the respondents' views).

Furthermore, another concern in measuring the value of qualitative research is the ethical issues (Marshall & Rossman, 1995) faced by the researcher especially in data collection, data analysis and findings dissemination (Creswell, 2007; Merriam, 1988). To handle this issue, this study determines three ethical concerns: as (i) participation of respondents; (ii) informed consent (Fischman, 2000); and (iii) privacy and confidentiality (Folkman, 2000). Firstly, the participation of respondents in this study was entirely voluntary and there were no known or anticipated risks involved in participating in this study. For each interview session, the researcher was responsible for getting the respondents' permission to use audio-recording and explained that the respondents had a right not to answer certain questions that they may feel were sensitive or harm their position. In addition, the respondents were given the opportunity to correct their statements through member checking form (Appendix E). The names of the respondents and their personal information would not be mentioned in this thesis or any publication resulting from this study, in order to maintain anonymity, confidentiality and privacy. However, the name of the bank is revealed as the researcher gained the bank's permission to do so (through a letter of permission).

Secondly, an informed consent letter was sent to the bank to explain the study's background, the objectives of the study, the reason for selecting the bank, the data collection processes, some issues related to privacy and confidentiality (protecting the identity of the respondents), and the signature of the respondent and the researcher. The letter also stated that information would not be used for any non-research purposes. Lastly, in relation to the issue of the privacy and confidentiality of the respondents and the data and records, the researcher ensured that: (i) all evidence especially internal

guidelines would be kept confidential and private; (ii) the privacy of the respondents would be maintained, and they could withdraw from the study at any time, without any negative consequences; and (iii) the data and records collected would be kept in a secure location and with limited access (i.e. minimizing the number of individuals who can access those records).

The last issue on the quality of qualitative research is about reducing bias in research interpretation, starting from conceptualizing the problem until the conclusions are drawn. According to Miles and Huberman (1994) and Yin (2009), the development of matrices of different categories and display charts and sharing the preliminary findings with colleagues and requesting their comments and suggestions can minimize researcher bias. These two techniques were employed by developing matrices (tables) for identifying the underlying themes and sub-themes for the interview transcripts and documentation analysis. In addition, the initial findings of this study were discussed and presented in a few academic meetings and conferences.

4.6   Summary of the Chapter

In conducting this study, a case study approach is used to discuss, understand and explain the concept of CSR and the process of CSR management from Islamic perspectives at Bank Islam. This qualitative case study is concerned more on understanding and describing a process rather than behavioral outcomes. It aims to explain the reasons for observed CSR phenomenon using the *Tawhid* and *Shariah* paradigm. As explained in this chapter, a series of interview sessions, observations and documentation analysis were employed for the data collection, and the data gathered were analyzed systematically in order to draw the findings and conclusions.

As a final note, this study was designed, analyzed and narrated carefully by considering the ethical code of research conduct and reducing researcher bias. The issue of ethics was handled in relation to the participation of the respondents, informed consent and privacy and confidentiality. In addition, to improve the validity and reliability of the study, several techniques were employed such as data triangulation, member checking form, designing a protocol for interviews and observations, peer review and also creating a case study database for the data management. The next chapter explains the descriptive findings of the CSR concept, objectives, factors, benefits and challenges at Bank Islam.

CHAPTER FIVE: DESCRIPTIVE FINDINGS OF CSR CONCEPT, OBJECTIVES, FACTORS, BENEFITS AND CHALLENGES AT BANK ISLAM

5.1   Introduction

This chapter introduces the descriptive findings on the CSR concept, objectives, factors, benefits and challenges at Bank Islam Malaysia Berhad (Bank Islam). The aim of this chapter is to answer the first, second and third research questions: **(i) What is the concept of CSR for Bank Islam Malaysia Berhad?; (ii) Why does the bank engage in and sustain CSR activities?;** and **(iii) What are the factors, benefits and challenges of CSR engagements?**

As an Islamic business organization, Bank Islam has been perceived as a bank with a social face. This stakeholders' aspiration obliges the bank to actively engage in CSR activities. For Bank Islam, CSR is considered as an integral part of the bank's duty to discharge religious, social and economic responsibilities to the various stakeholders such as employees, customers, community members, business partners and also the environment. At Bank Islam, CSR is highly related to the *zakat* and the *zakat* management due to the significant amount of CSR funds that are derived from the *zakat* fund. Most of the respondents agreed that CSR is about giving back to society and that it is a tool to help and develop communities. The objectives of engaging in and sustaining such activities are to achieve the purposes of the bank's establishment, which are based on the *maqasid Shariah*. Specifically, CSR is a tool to demonstrate responsibility and accountability (*masuliyyah*) in order to maintain a good relationship with Allah, other human beings and the environment as well as to obtain Allah's blessing *barakah* (Allah's blessing) and *al-falah* (success in this life and the Hereafter).

The bank engages in CSR initiatives in relation to four CSR pillars: (i) the workplace; (ii) the marketplace; (iii) communities; and (iv) the environment. These four pillars are aligned with the Bursa Malaysia CSR Framework; as an Islamic business entity, the bank may integrate another pillar, which is religion as one of its main pillars. As explained in this chapter, a number of external and internal factors influence the CSR engagement at Bank Islam. These factors include religion, pressure or perceptions of stakeholders, the name of the bank and also internal resources (financial and human capital). Thus, in order to manage the CSR initiatives, these factors should be carefully examined to optimize the benefits of CSR to the beneficiaries as well as to other stakeholders. The last part of this chapter presents the findings on some of the challenges facing the bank's CSR engagement, such as fulfillment of stakeholders' aspirations, utilization of internal resources. It is clear that the management of such activities needs to be handled carefully. The main findings in this chapter are further discussed in detail in Chapter 7. Before the empirical findings are presented in this chapter, the context of the case, which is Bank Islam, is first briefly reviewed.

5.2   Islamic Banking and Bank Islam Malaysia Berhad

In modern history, the existence of Islamic banking is less than 100 years (Respondent 16). Islam considers business activities including Islamic banking and financing as part of worship and obedience to Allah if they are performed in accordance with the *Shariah* principles and guidelines. According to the Bank Islam website (www.bankislam.com.my), there are five governing principles of Islamic banking, namely: (i) the absence of interest-based (*riba'*) transactions; (ii) avoidance of speculation (*gharar*); (iii) avoidance of oppression (*zulm*); (iv) promotion of socio-economic justice

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via Islamic tax (*zakat*)*;* and (v) discouragement of offering products and services that are harmful to human kind (ethical business) and contradict the Islamic principles and values (*haram*). As a flag bearer in Islamic banking and finance in Malaysia, Bank Islam plays a strategic role in developing and promoting the Islamic economy (Respondent 8, Respondent 9 and Respondent 17).

> Bank Islam is well-positioned to lead the way in building the industry into a viable global alternative to conventional banking. The Bank has played a pivotal role in developing as advanced Islamic finance system in Malaysia. It is proud to be associated with 'growing' several leaders and specialists in the industry.
>
> (Bank Islam Annual Report 2011, p.174)

In addition, the bank also participated actively in encouraging Muslims to choose Islamic banking and finance.

> Being the pioneer in the sector, the Bank continues to play its leading role in developing and promoting Islamic banking and finance extensively through its contribution in knowledge, information, products and services. The Bank also serves as a research center and provides opportunities for future ventures into the industry by supporting Islamic studies program for undergraduates and postgraduates in higher learning institutions among others.
>
> (Respondent 9)

The presence of Bank Islam in Malaysia provides a good impact to the Muslim society in relation to the banking and finance services (Respondent 8, Respondent 14 and Respondent 16). It creates a sense of belonging among Muslims towards the bank: "I think Bank Islam… accomplishes the emotion and psychology needs [towards Islamic banking and finance system] among Malays through the sense of belongings concept. And then, it provides a good socio-economy impact to Malay's community" (Respondent 14).

Bank Islam was established and commenced operations on 1 July 1983 and is regulated by the Islamic Banking Act, 1983. Bank Islam was the first Islamic bank in Malaysia and has become a symbol of Islamic banking in Malaysia. Now the bank aims to be "a global leader in Islamic banking" (Bank Islam Annual Report 2012). This is in line with Malaysia's ambition to become an international Islamic financial hub. In 1992, the bank was listed on the Bursa Malaysia Securities Berhad and, in 1997, BIMB Holdings was formed as the group's holding company. As at the end of 2012, the bank had 127 branches with at least six more branches planned for 2013, four *Ar-Rahnu* (Islamic mortgage or collateral) outlets, eight consumer banking centers, four Bereau de Change and a total of 1,190 self-service terminals nationwide (Bank Islam Annual Report 2012).

The bank's initial capital was contributed by *Tabung Haji* and amounted to RM80 million and gradually increased to RM2.23 billion as at December 2012 (Bank Islam Annual Report 2012). In terms of assets and deposits as at 2012, the bank had RM37.5 billion and RM32.6 billion, respectively, and has a comprehensive spectrum of the *Shariah*-based financial products and services to cater to the financial needs of more than 5 million customers (Bank Islam Annual Report 2012). Some of the Islamic banking and financing instruments that are practiced in Malaysia include *Murabahah* (cost-plus), *Ijarah* (hire purchase), *Musyarakah* (partnership), *Al-Wadiah* (trust power) and *Bai' Bithamin Ajil* and *Bai Al Innah* (lending and advancing that are usually achieved through deferred payments).

According to the Bank Islam websites, the bank claims that, with more than 70 innovative and sophisticated Islamic banking products and services, the bank continues to expand its business operations by offering various categories of products and services

related to micro financing, wealth management, capital market, treasury and structured products to suit the demand of its customers. The bank also commits to providing products and services that are not harmful to humankind (ethical business) and avoids involving in speculation (*gharar*) and oppression (*zulm*) which could contradict the principles of social justice.

Bank Islam deals with a number of challenges, particularly in meeting the expectations of other Islamic bank operators in the industry to promote the Islamic banking products and services in Malaysia. As a leader, all the practices and procedures especially in regard to the *Shariah* compliance will be taken into account as a precedent for others: "We are the first Islamic bank… so, the flagship of Islamic banking is belong to us" (Respondent 16). Hence, all aspects of the business operations and decisions should be discussed and designed carefully (Respondent 16 and Respondent 17). Moreover, the industry needs more *Shariah* scholars who have a good capability to discuss the current issues (such as corporate governance, *Shariah* governance and regulatory capital) to strengthen the operations and governance of Islamic banks (Respondent 16). One of the aspects of the corporate governance is managing the social obligations of companies towards society. Thus, this study interviewed the key players in managing the CSR initiatives of the bank to understand how the bank perceives CSR and conducts such activities.

5.3   Bank Islam Malaysia Berhad and CSR Engagements

CSR is an integral part of Islamic banking. They support each other: "Islamic banking and CR is always an integral part… no such things as separation. The moment you set up a business entity or banking entity the key thing of *zakat* kicks into place… that is automatically" (Respondent 9). Respondent 7 expressed the same view: "For us, Bank

Islam, social responsibility involves providing homes to the needy and for conventional [banks], it may be not. Basically, it goes back to the *zakat* money which is managed by the bank itself". Respondent 9 also agreed that CSR is an essential element in Islamic banking: "For Islamic banking is a must and is part of your relationship with the other people". The above arguments are supported with the following statement;

> At Bank Islam, CR goes beyond donations, sponsorship and charity work. Embedding CR practices into our overall business operations, product and services department is our culture dedication to leverage for business sustainability, putting forth impactful values for everyone.
>
> (Bank Islam Malaysia Berhad, 2010)

Thus, the social agenda should be integrated in the Islamic banks' philosophies because the banks have a social face (Arshad *et al.*, 2012; Mohammed, 2007) and their business philosophy is highly related to religion (Basah & Md Yusuf, 2013; Dusuki, 2008a; Farook, 2007; Farook *et al.*, 2011; Haniffa & Hudaib, 2007; Hassan & Harahap, 2010; Platonova, 2013). Additionally, the Islamic banks are morally and financially accountable for their business behaviors to a range of stakeholders (Dusuki, 2008a; Haniffa & Hudaib, 2007; Maali *et al.*, 2006; Mohd Nor & Asutay, 2011). In a similar vein, the essence of the establishment of Islamic banks is to achieve the objectives of *Shariah* which promoting socio-economic justice, eliminating prejudice and realizing public welfare (*maslahah*) through cooperation and mutual support within family and community (Dusuki & Abdullah, 2007a).

The term "CSR" was introduced at Bank Islam for the first time in the Bank Islam Annual Report 2006 and 2007. Later, in the Bank Islam Annual Report 2008, the term "corporate social responsibility" was replaced by "corporate responsibility" (CR).

According to Respondent 9, the bank continues to use CR instead of CSR in order to align with the Silver Book guidelines introduced by the Putrajaya Committee on GLC High Performance. It shows that the introduction of the term "CSR" at the bank does not change its commitment to enhance the wellbeing of society. The bank discharges its social obligations by conducting the business in accordance with *Shariah* principles and guidelines, which promotes social justice and fairness.

The bank claims that its CSR engagements have been established since the first day of incorporation as the bank does not fail to pay *zakat* regardless of whether it makes a profit or loss. The respondents from the bank also claimed that paying *zakat* is a clear example of the CSR practice and they were more familiar with *zakat* than with the CSR terminology to prescribe their social responsibilities (Respondent 1, Respondent 9, Respondent 12 and Respondent 17). For instance, Respondent 9 mentioned that: "Previously we do not call as CR. If you go to 1983 Annual Report… we just write it as zakat and may be the report does not disclose the activities and also the recipients".

This finding is supported by prior research that argues the introduction of CSR into the corporate vocabulary does not reflect changes in corporate social activities (Caroline D. Ditlev-Simonsen, 2010). Thus, in this study, the terms "CSR" and "CR" are used interchangeable especially in the direct citation (because the interview sessions were transcribed verbatim) in order to appreciate the term used by the respondents. Bank Islam CSR has been an integral part of the bank's operations since the first day of incorporation and is highly associated with *zakat* (whereby the bank pays *zakat* and distributes the refundable *zakat*).

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5.3.1 The Concept of CSR at Bank Islam Malaysia Berhad

Most of the bank's staff relate the concept of CSR to religious responsibility, particularly in paying the business *zakat* and conducting the business in accordance with *Shariah* principles. This may suggest that the CSR engagements are highly important obligations to be practiced by all organizations. For example, the *zakat* (business *zakat*) is a mandatory obligation for Islamic business entities, with the rules and guidelines to perform such practice prescribed in the *Al-Quran* and *As-Sunnah*. Respondent 16 explained that the *zakat* is a (mandatory) responsibility of the bank regardless of profit or loss.

> Responsibility of the bank is to pay business *zakat*. To consider *zakat* as CSR or not... I think the bank uses this opportunity to use the amount of *zakat* that has been refunded by the *zakat* authorities to the bank to conduct the CSR activities. But originally, the *zakat* is the bank's responsibility as being an Islamic organization… we are responsible to pay the *zakat*.
>
> (Respondent 16)

For instance, for the first year of operation, the bank incurred a loss of RM1,286,821 and paid *zakat* of RM483,547 (Bank Islam Annual Report 1984). For the financial year ending 30 June 2005, the loss before *zakat* and tax of the bank was RM479,778,000 due to higher provisioning on non-performing financing of RM648 million (Bank Islam Annual Report 2005) and RM3,364,000 of its business *zakat* was paid (Bank Islam Annual Report 2006).

At Bank Islam, *zakat* and CSR are closely related to each other because the *zakat* fund represents the largest portion in the CSR fund and most of the CSR activities are funded by the *zakat* fund (Respondent 1, Respondent 8, Respondent 7, Respondent 15,

Respondent 16, Respondent 19 and Respondent 22). The view that CSR is associated with *zakat* was also asserted by Dato' Sri Jamil Khir bin Baharom, Minister in the Prime Minister's Department in a speech at the Masjid An-Nur Pokok Sena (handover ceremony of the bank's Home Project 2010) on 4 September 2010. The *zakat* is only a tool or fund to conduct the CSR initiatives, but CSR covers all activities that have been done as part of the responsibility to all stakeholders (Respondent 1, Respondent 8, Respondent 9, Respondent 12, Respondent 16, Respondent 17, Respondent 22 and Respondent 28).

Thibos and Gillespie (2011) also claim that Islamic practices of CSR and *zakat* are connected each other, especially in the philosophies of both practices and choices of recipients. Thus, this study concludes that CSR engagement in Bank Islam is a part of the worship (*Ibadah*) and religious obligations. This connection is due to the *zakat* practices to maintain good relationships with Allah and other human beings (*hablun min Allah* and *hablun min an-nas*). The requirement and the practices of *zakat* have an element of *Tawhid* (Gambling & Karim, 1986; Haniffa & Hudaib, 2002; Md Ramli *et al.*, 2011) whereby Muslims believe *zakat* is used to purify one's soul and wealth to gain Allah's blessings (Quran 2:110). In addition, *zakat* is a tool to achieve the *maqasid* (objectives) of *Shariah* for *maslahah ammah* (public interest). In this sense, the responsibility and accountability to pay *zakat* is to discharge accountability to Allah and accountability to other stakeholders including society.

Another dominant concept of CSR is about giving back to society and seeing it as a tool to help and develop communities (Respondent 7, Respondent 9, Respondent 12, Respondent 14, Respondent 15, Respondent 16, Respondent 28, and Bank Islam Annual

Report 2011). Respondent 28 expressed this view as follows: "We want to tell the public that Bank Islam is not just a profit-oriented entity but we also want to give more back to society" (Respondent 28). Respondent 15 also claimed that, being a profit organization, the bank needs to give back and serve the community for the sustainability of the business. For instance, the bank realized that the largest depositors of the bank are universities, and many university students need financial support. Through the Students' Affairs project, the bank gives *zakat* to the universities: "In term of giving back to society, is like in the case of the *zakat* distribution, we notice that the biggest depositors of the bank are universities, so what we do is we give back this *zakat* to the universities" (Respondent 9). In Bank Islam Annual Report 2010 (p. 156), the bank claims that:

> Bank Islam believes that the world of banking is about more than just profit. The heart of our business lies in serving people and when this is achieved, symbiotic benefits are realized. By supporting our stakeholders in the environment where they live, work and play, Bank Islam helps realize a stable society on which it can then nurture long-term business success.
>
> (Bank Islam Annual Report 2010)

In addition, most of the respondents claimed that CSR is a bridge to connect the bank with its stakeholders: "CSR can connect the organization with the society. That is the best program" (Respondent 19). Thus, this study documents that Bank Islam has a social responsibility towards various stakeholders in order to maintain its good relationship with Allah and other human beings (*hablun min Allah* and *hablun min an-nas*) as well as to attain *barakah* and *al-falah.* Islam urges individuals and organizations to spend their wealth to help the poor and to develop society (Chapra, 1992; Khan & Karim, 2010; Muwazir *et al.*, 2012; Yusof & Bahari, 2011). Essentially, the social responsibility of Islamic business organizations is not just about fulfilling the material rights of

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stakeholders: there is also a spiritual obligation to achieve the objectives of *Shariah* or *maqasid Shariah.* The *maqasid Shariah* urges Muslim businesspeople to be concerned with the spiritual and material aspects in order to protect faith (*din*), life (*nafs*), intellect (*'aql*), prosperity (*nasl*) and property (*mal*). For instance, the bank may conduct various religious programs among the staff to enhance their Islamic knowledge.

To secure the existence or sustainability of the business, the bank integrates its CSR philosophies into the bank's mission, strategy, system, product development and also makes it part of the organizational culture (Respondent 1, Respondent 8, Respondent 9, Respondent 15 and Respondent 17). According to the Bank Islam Annual Report 2012 (p. 170), "the very idea of Corporate Responsibility…has been embedded into the bank's culture, where Islamic core values shape the heart of the Bank's business and anchor its success". Respondent 9 claimed that: "I think is more towards… if you embedded the culture of corporate responsibility as part of your DNA [business philosophy and culture]. And for Bank Islam, the scope of CSR is wide"; "the perspective of CSR… bigger… not only in term of activity".

In this context, Respondent 9 argued that CSR at Bank Islam is not merely an activity but is well embedded as part of the business culture and commitment to be a good corporate citizen. The integration of the CSR philosophy in the daily business operations and decisions is aligned with the business strategy and planning of the bank (Respondent 1 and Respondent 9): "all the products and the actions that we do, are already in line with the business strategy" (Respondent 1). For instance, CSR elements have been embedded in the bank's policies on financing: "When we evaluate the credit facility, we take into account [CSR] in the decision making process" (Respondent 9).

Another example is the bank avoids to finance companies which involve in the liquor industry:

> If we become the major banker to any can manufacturers… we can impose certain conditions… like the companies should not supply cans to the liquor/alcohol companies. Basically they will agree because they also want to be classified in *Shariah* counter and they want to get benefits from the ethical investors.
>
> (Respondent 9)

Moreover, the integration of CSR elements can also be observed in the product development such as the Bank Islam Credit Card (BICC), the *waqf* development, the micro-financing via the *Ar-Rahnu* outlets and the Bank Islam Alumni-UiTM Platinum MasterCard (Respondent 1, Respondent 9, Respondent 19 and Respondent 22): "so, our product is always tied to CR and our product has some CR quality in need. It starts from there" (Respondent 1). Respondent 9 also explained that the bank aligns its CSR with business strategy in product development.

Furthermore, Respondent 19 also claimed that CSR is part of the business agenda: "For the company [Bank Islam], top management acknowledges that CSR is part of business agenda" (Respondent 19). Interestingly, this view was also emphasized by Respondent 8 and Respondent 9 who stated that CSR is now becoming part of the business agenda among other GLC members as well as other companies to play a role in helping the government to develop the nation (Respondent 8, Respondent 9, Respondent 14 and Respondent 18).

From the above findings, this study indicates that the bank has an economic responsibility to run the business profitably for the benefit of shareholders, employees, customers and the community. The bank may use this financial capability to conduct more CSR

initiatives. Further, according to Respondent 9, this natural alignment of social and economic responsibilities may drive the business value proposition. These two responsibilities need to be systematically managed in order to develop a balanced socio-economic growth and to reduce poverty in the Muslim community (Chapra, 1992). In this sense, CSR may be embedded as part of the bank's business agenda, culture and strategy.

Some of the respondents explained the CSR concept by classifying CSR based on the source of fund that was used to conduct the initiatives. Based on sources of fund such as *zakat*, CSR budgeting and donation, they proposed the categories of pure CSR and strategic CSR (Respondent 6, Respondent 8, Respondent 15, Respondent 16 and Respondent 17). The pure CSR is derived from the *zakat* fund to help the underprivileged to improve their life (Respondent 6 and Respondent 15). Some of the respondents referred to pure CSR as a real responsibility: "that is real responsibility… which means like we provide homes for the poor and needy. That is not given synergy to us..… If they deserve (*asnaf),* we will give… that is a real responsibility" (Respondent 8).

This view was shared by Respondent 15 and Respondent 16: "The project at Sungai Tengas… actually that is pure CSR... in term of selection of the recipients. We do not consider whether they have accounts or not with Bank Islam" (Respondent 15). Respondent 16 also agreed that CSR activities from the *zakat* fund do not lead to business development and opportunities. Conversely, for strategic CSR, the activities are funded by other sources (except *zakat*) (Respondent 16). An example of strategic CSR is sponsorship (Respondent 19). The strategic CSR is like a win-win situation and leads to business opportunities.

Furthermore, Respondent 6, Respondent 7 and Respondent 9 compared the Western and Islamic perspective of CSR. For instance, in the Western point of view, CSR is focused more on image building and is also related to marketing activities to publish the brand itself (Respondent 6 and Respondent 7). In contrast, the Islamic perspective of CSR suggests that the CSR initiatives should be naturally practiced: "Western view of CR is coming from the angle of activities, but we are different. The product itself is integrated with CR elements… natural alignment… natural practice. You have deposits and you have already pay *zakat*" (Respondent 9).

For instance, the bank offers several schemes to solve customers' problems in paying back the credit facilities such as: (i) the Payment Holiday Scheme whereby installments can be skipped for the months of November and December; (ii) No Payment During Construction whereby repayment of financing will commence only after completion of construction; and (iii) the EHSAN Program which offers 12 months installment deferment to home financing customers who have been retrenched from 1 July 2008 (in the economic downturn). The respondents suggested that the notions of CSR are consistent with the Islamic values and teachings (Respondent 16) and such values may serve as a foundation for the CSR discourse.

In sum, Bank Islam has three main responsibilities in conducting CSR activities, namely, religious, social and economic responsibilities. Thus, CSR is about any activities in which the bank engages to discharge these responsibilities and accountabilities in order to maintain a good relationship with Allah, other human beings and the environment to achieve *maqasid Shariah* and *maslahah ammah*. This finding is consistent with other studies which point out that Muslim business entities, in carrying out social obligations,

may need to fulfill religious, social and economic responsibilities to various stakeholders (*Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 2004; Chapra, 1992; Dusuki & Abdullah, 2007a).

5.3.2 Objectives of CSR Engagements

CSR is not about giving a donation or money to help the poor but about coordinating and sustaining such activities for the benefit of all parties involved in that process including companies, communities, agencies and parties who are directly involved as well as recipients (Respondent 1, Respondent 19 and Respondent 28). Bank Islam is like one coin with two sides: the social side, and the business side (Respondent 6, Respondent 8, Respondent 9, Respondent 14, Respondent 15, Respondent 16, Respondent 17, Respondent 18, Respondent 19, Respondent 22, Respondent 24 and Respondent 28). Essentially, the objectives of CSR engagement at Bank Islam are to fulfill three main objectives for the sake of religious, stakeholder and business obligations (Respondent 9).

(i)   To fulfill religious obligations

The ultimate responsibility of Bank Islam in conducting the CSR initiatives is to fulfill the religious obligation to get good reward (*pahala*) and God's blessing (*barakah*). This view was shared by Respondent 1, Respondent 9, Respondent 16, Respondent 17 and Respondent 28. Respondent 17 mentioned the responsibilities of Bank Islam – one responsibility is to God (in the sense of social accountability to the society and stakeholders) and one is to the contracted party (such as shareholders, customers and society): "There are two things that the bank holds for many years – one is from the religious side because we are Islamic bank and number two is like how to promote…

promoting Bank Islam" (Respondent 17). In addition, Respondent 28 mentioned that the

bank's CSR engagement is part of *fard kifayah*.

As an Islamic business entity, the bank acknowledges its responsibilities and

accountabilities to Allah through the concept of vicegerent (*khalifah*) (Respondent 1,

Respondent 7, Respondent 9 and Respondent 17).

> Good corporate citizen… as a banker to society, actually we have to remember about our duty as vicegerent [*khalifah*] of Allah. Therefore, in this sense, we hope we can perform the task given in the best way to the right people.
>
> (Respondent 7)

Respondent 9 also claimed that: "For us at Bank Islam, the concept of CSR encompasses

a broader meaning embracing God consciousness [*taqwa*] dimension by which

corporation as a group of individual, assuming the roles and responsibility as servants and

vicegerents in all situations". Interestingly, Respondent 9 and Respondent 17

acknowledged the responsibility of the bank to conduct the business ethically in

accordance with the *Shariah* principle to be a corporate responsible banker.

(ii)   To be responsible to all stakeholders

To be a responsible corporate citizen is part of the core corporate value and mission of

the bank (Respondent 1, Respondent 9, Respondent 16, Respondent 15, Respondent 17,

and Bank Islam Annual Report 2011).

> The goal of the bank's corporate responsibility ("CR") is to embrace accountability for the company's action and encourage a positive impact through CR activities for its employees, customers, communities and the environment.
>
> (Bank Islam Annual Report 2010, p. 156)

Among the stakeholders of the bank are the shareholders, customers/depositors, business partners, staff, community, the environment and potential investors. The bank always tries to help any stakeholders in need in order to assist them to improve their wellbeing (Respondent 7, Respondent 9 and Respondent 28). The reason for the engagement of the bank in such activities is to show its concern as well as to share the wealth with the underprivileged in society (Respondent 1, Respondent 6, Respondent 7, Respondent 9, Respondent 16, Respondent 19 and Respondent 28). For instance, in 2011, the bank distributed RM11,588,188 of the *zakat* fund to the benefit of the marginalized segments of Muslim society, state *zakat* authorities, mosques, Islamic institutions and NGOs (Bank Islam 2011 Annual Report).

(iii)   To help beneficiaries to increase the household income

Another objective of conducting the CSR initiatives is to help beneficiaries to increase the household income. For Bank Islam, to help the community is a shared responsibility between the government, public and private sectors (Respondent 7, Respondent 12 and Respondent 13). For instance, the bank provides equipment instead of cash to the beneficiaries to start the business independently in order to encourage them to generate more money (Respondent 7, Respondent 12 and Respondent 29): "Recently, we give them [beneficiaries] equipment… if I am not mistaken somewhere along the way to Kangar. We give equipment, so we help them to generate their monthly income independently" (Respondent 7). If the bank gives cash to the recipients, the money needs to be credited to their accounts (Respondent 17). Among the programs that have been conducted using this strategy is the *Manjadda Wajada* which is a collaboration program

with the ASTRO[8]. It is believed that CSR may help to increase the socio-economic status of the society as well as to improve the community's wellbeing, and in the long run it may reduce the poverty rate (Respondent 26 and Respondent 28).

(iv)   To educate communities to improve their life

Another objective of the bank's CSR engagement is to educate the local community to improve their life: "CSR is not just we provide a house… then, get publicity in the newspaper. No, it goes beyond that. Actually we want to educate our local community to improve their life" (Respondent 7). It is hoped that the community may get some benefits through the CSR initiatives, especially to enhance their socio-economic activities (Respondent 7, Respondent 28 and Respondent 29). Furthermore, CSR is also seen as a tool to help and develop communities: "CSR has a fund that can be used to help and develop community" (Respondent 14).

(v)   To strengthen the relationship (*ukhuwwah*)

Respondent 1, Respondent 8, Respondent 12, Respondent 13 and Respondent 28 explained that one of the CSR objectives at Bank Islam is to strengthen the relationship (*ukhuwwah*) not only among the staff of the bank but also as part of the community where the bank operates: "We want to be part of the community where we operate. We organize a function at their mosques" (Respondent 8). Respondent 28 also claimed that the CSR engagement is a medium to strengthen the relationship among the staff of the bank: "One of our CSR objectives is to strengthen the relationship".

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[8]   All-Asian Satellite Television and Radio Operator (ASTRO) is a Malaysian direct broadcast satellite pay TV service

(vi)   To preserve the environment

The bank also places a priority on preserving the environment by: (i) conducting the Recycle Awareness Campaign in the PINTAR schools; (ii) distributing washable bags; (iii) organizing beach cleaning at Dungun and Kuantan; (iv) planting mangrove trees at the Pulau Che Mat Zin; (v) participating in the World Wide Fund for Nature (WWF) Earth Hour Campaign to create awareness and to support global saving energy; and (vi) initiating the "Jom Save Cost Campaign" to save the consumption of electricity, water and paper (Respondent 1, Respondent 19, Respondent 28 and the Bank Islam Annual Report 2012). The objectives of engaging such activities are to educate and create awareness of the public to sustain and preserve the environment for future generations (Respondent 28).

(vii)   To promote the image of the bank

All of the respondents (particularly to the staff of the bank) agreed that CSR may be used to increase the bank's reputation: "That is why we promote the bank's name through CSR. CSR is the best campaign" (Respondent 17). Respondent 12 also claimed that CSR may have a good impact to the image of the bank: "This is my personal view…[it] is like a mask for us to make sales... part of or a tool to promote the bank's products and to attract new customers to Islamic banking".

(viii)   To sustain the business through competitive advantage

The respondents believed that CSR engagement may help the bank to sustain its operations in the Islamic banking and finance industry: "It [CSR] is very important to BANK ISLAM in ensuring sustainability of the bank" (Respondent 1). Hence, CSR is a vehicle in a business journey (continuity and sustainability) (Respondent 1, Respondent

6, Respondent 7, Respondent 8, Respondent 9, Respondent 12, Respondent 17, Respondent 19, Respondent 22 and Respondent 28). Furthermore, Bank Islam as a pioneer in the Islamic banking and finance industry in Malaysia has to position itself to get the competitive advantage by conducting CSR. This argument was highlighted by Respondent 6, Respondent 9, Respondent 12 and Respondent 17: "people point the word CR becomes important role... repositioning in the industry" (Respondent 9).

In sum, the objectives of CSR engagement at Bank Islam are dominated by three main purposes: (i) to fulfill the religious obligation as an Islamic business entity; (ii) to enhance the wellbeing of all stakeholders including its employees, shareholders, depositors, customers, society and also the environment; and (iii) to promote the image of the bank as a responsible bank for the sustainability of the business. These three objectives reflect the bank's commitment to achieve the objectives of its establishment, which are based on the *maqasid Shariah* to optimize the wellbeing of humankind (Basah & Md Yusuf, 2013; Platonova, 2013; Sairally, 2013).

The objectives of CSR from the Islamic perspective are to demonstrate responsibility and accountability to Allah, other human beings and the environment as well as to obtain *barakah* and *al-falah* in this life and in the Hereafter (Muhamad, 2007; Muwazir *et al.*, 2006). To achieve the objectives of CSR engagements, the bank conduct various CSR programs which are linked to four pillars: marketplace, workplace, community and environment.

5.3.3 Four CSR Pillars

According to Respondent 1, Respondent 9, Respondent 19 and Respondent 28, Bank Islam engages in activities that are linked to four CSR pillars: (1) workplace/employee; (2) marketplace; (3) communities; and (4) the environment to fulfill the stakeholders' expectations. These four pillars are aligned with the four CSR dimensions that are suggested in the Bursa Malaysia CSR Framework and also by the bank's parent company BIMB Holding Berhad (listed on the main market of Bursa Malaysia). As a wholly-owned subsidiary of BIMB Holding Berhad, Bank Islam is committed to leverage its brand through CSR initiatives.

(i) Workplace – Facilitating the Employees

The bank is inspired to become "the employer of choice" and to attract high caliber individuals by developing the core competencies of the staff (which amounted to a workforce of 4,082 as at December 2012). This goal may be achieved through training and developing programs and also by ensuring the health, safety and welfare of its staff through creating a conducive working environment (Bank Islam Annual Report 2012). The bank invested a total of RM8.3 million in 2012 to all levels of staff (Bank Islam Annual Report 2012). This commitment of the bank was highlighted by one of the respondents as follows: "In terms of employees, we always concern on health, Occupational Safety and Health, safety, wellbeing safety and workplace diversity… inspiring and conducive working environment. And then, we practice sustainable business operations through employee's engagement" (Respondent 1).

According to the Bank Islam Annual Report 2010, the bank recognized the contribution of the staff with the following phrases:

> Bank Islam recognizes the contribution of employees, its most valuable assets in gaining and enhancing competitive edges, strengthening operational efficiency, achieving organizational success as well as raising corporate and shareholder value. Employees play a major role in ensuring a sustainable development of the bank and constitute the key ingredient for the bank to remain resilient in a competitive operating environment.
>
> (Bank Islam Annual Report 2010, p. 170)

The coverage of the workplace is focused on the welfare of the bank's staff as well as the internal activities among employees such as family day, team building programs and *Hari Raya* Open Day (Respondent 1). The bank also provides training and staff career development programs (Respondent 15, Respondent 17 and Respondent 28), conducts a series of spiritual programs at the *Surau Ahmad Dawjee Dadabho*y in Menara Bank Islam (Bank Islam Annual Report 2012) and encourages the staff to further their studies at higher levels (internal scholarship) (Respondent 1).

For the staff training and development, the Human Resources (HR) Department organizes in-house workshops, courses and seminars for all levels of staff at least three times a year, allocating a total of ten days per employee (Respondent 15, Respondent 17 and Bank Islam Annual Report 2010). Respondent 28 explained that the training is part of the workplace culture and the purpose of the training is to leverage the skills of the staff and to equip them staff with new knowledge. In addition, the bank organizes a program called "*Hijrah* to Excel" to equip the staff with sufficient knowledge on *Shariah*-compliance and the philosophy of Islamic banking (Respondent 28 and Bank Islam Annual Report 2010).

Another aspect in relation to the employee issue is managing the performance system to keep the staff motivated, devoted and productive (Respondent 1, Respondent 19, Respondent 24 and Respondent 28). Several ongoing efforts have been introduced to inculcate a performance-driven culture to link performance to reward such as the Performance Management Development, Key Performance Indicators (KPIs) and Performance Improvement Plan (Bank Islam Annual Report 2011). The Performance Management Development is a bi-annual assessment which provides employees an opportunity to discuss their performance and personal development plan with their superiors (Bank Islam Annual Report 2011). The Performance Improvement Plan is a tool to guide employees to achieve the expected levels of performance (Respondent 1, Respondent 28 and Bank Islam Annual Report 2011). Moreover, the bank also establishes remuneration packages to suit employees' skills, competencies, level of responsibility and recognition of high performers through the competitive performance bonus (Bank Islam Annual Report 2011).

Respondent 6, Respondent 19, Respondent 24 and Respondent 28 also mentioned that the bank established a club known as the *Kelab Kebajikan Bank Islam* to manage and coordinate the welfare of the staff and to support the functions of the HR Department and Corporate Communications in organizing CSR activities (Respondent 24, Respondent 25 and Respondent 28). Specifically, the club is responsible for conducting all activities on behalf of the staff such as: (i) organizing the Bank Islam Sports Day Carnival and recreational activities to reduce the workplace stress and strengthen the relationships among the bank's staff; (ii) managing donations or contributions to the welfare of club members (in cases where staff have experienced death of family members, education

needs, critical illness and many more situations); (iii) establishing several other units like educational and religious units, women affairs, membership drives and so on to enhance the motivation and spiritual commitment of the staff; (iv) organizing religious lectures (*tazkirah*) delivered by notable in-house and invited speakers; and (v) maintaining a good relationship with the HR Department and Corporate Communications for the benefit of the staff (Respondent 24, Respondent 25 and Respondent 28).

(ii)   Marketplace – Enriching the Industry

Enriching the marketplace at Bank Islam starts from the role of the bank in developing and promoting the Islamic banking and finance industry through its contribution in the form of knowledge, information, products (Respondent 28) and product development (Respondent 1). The bank takes a responsibility for being a source of reference for the *Shariah*-based financial products and services and increasing Muslim awareness of Islamic banking and finance (Bank Islam Annual Report 2012). The bank offers various types of *Shariah*-based financial products and services from the traditional financing, savings and investment types of products to the micro-finance, wealth management, capital market, business banking, investment banking, treasury and structured products (Bank Islam Annual Report 2011).

The bank appreciates its customers and consumers, using the tag line of "Customer is King" for the long-term sustainability of the business. Indeed, the bank should be responsive to the needs of customers, provide services at above the normal standards and introduce innovated products. Moreover, the consumers represent the largest contributor group to the bank, at more than 70% (Respondent 17) as compared to the commercial or corporate customers. Further, the bank has set up a specific policy for dealing with the

customers' complaints and feedbacks: "I think our credit administrators are among the most polite as compared to other banks and we try to help customers to settle their debts" (Respondent 24) and "We try to negotiate on how much they can pay and we try to get solutions on their problems" (Respondent 25).

For instance, the bank established the Complaint Management team under the Customer Care unit. This unit is responsible for: (i) defining the complaints and relevant complaint mechanism; (ii) ensuring all complaints are handled in an effective and timely manner; and (iii) ensuring all complaints are documented properly for future reference and audits (Bank Islam Annual Report 2009). In addition, the bank considers some priorities in managing the customer service as a main differentiator to the competition in the industry: "Delivering excellent service to customers and meeting customers' expectations will create customer loyalty as well as contributing to the Bank's business growth and leading to greater Return on Investment" (Bank Islam Annual Report 2011, p. 176).

Thus, to enhance the quality of customer service, several initiatives have been implemented such as establishing more branches and self-service terminals, upgrading facilities in the existing branches, introducing a tele-presence kiosk at the Menara Bank Islam, improving the bank's Internet banking platform, offering the TAP Mobile Banking-i, introducing the Al-Awfar Investment and many more (Bank Islam Annual Report 2011 and 2012). The bank also focuses on corporate sponsorship and donations (Respondent 9, Respondent 19 and Respondent 28) to cater to the needs of the corporate customers and to leverage the bank's brand: "For the marketplace, we focus more on sponsorship and donation to leverage our brand" (Respondent 28).

The marketplace activities are focused on enriching the bank's market and increasing the value of shareholders or other stakeholders by leveraging the brand of the bank: "More on enriching our market and also on how to increase our shareholders' and other stakeholders' value" (Respondent 28). In line with that, the bank has sponsored (as a main sponsor or associate sponsor) a few large events such as the 6th Kuala Lumpur Islamic Forum 2009, the 4th International *Shariah* Scholars Forum 2009, the 6th World Islamic Economic Forum 2010, the World Congress of Accountants 2010, the Global Islamic Finance Forum 2010, the Islamic Finance News 2011 Issuers, the Islamic Finance News Asia Forum 2012, the Asian Finance Forum 2012 and the Investors Asia Forum in Kuala Lumpur to gear up the brand of the bank at the international level (Respondent 28, Bank Islam Annual Report 2010, 2011 and 2012).

(iii)   Community – Serving Society

The bank's community projects receive a large focus among the CSR initiatives (Respondent 1, Respondent 6 and Bank Islam Annual Report 2010): "We focus more on community… which reflects our role in society" (Respondent 6). Respondent 1 mentioned that: "We have a lot in community… and I think that is the most. This is main target because community covers education, health indisposition and homeless". The community projects cover a huge spectrum of social development activities such as educational initiatives, poverty reduction projects, welfare support, unity programs, care of the senior citizens and homeless, improving the facilities of mosques, rehabilitation and rebuilding homes to improve the wellbeing of society (Respondent 1, Respondent 6, Respondent 19 and Respondent 28). Respondent 1 mentioned that the bank plays an

important role in improving the educational level of poor and underprivileged students at schools and universities by sponsoring their tuition fees and school apparel.

The bank is also involved in inculcating the innovation culture among the staff, students, academics and society by: (i) participating in the *Karnival Innovasi Islam Peringkat Kebangsaan 2011* and *Minggu Matematik 2011: Matematik Menjana Tranformasi Minda*; and (ii) sponsoring innovation competitions like The Invention, Innovation and Design Award 2010 with UiTM (Respondent 1). These are collaborative programs with UiTM: "Every year, we can see that in UiTM, the number of entries is increased from 200 entries to 700 entries and this program will motivate people to conduct research and development" (Respondent 1). Respondent 1 also claimed that the bank is active in providing financial support to older citizens.

(iv) Environment – Sustaining the Planet

For the environment, the bank commits to conduct its business operations with a conscious effort to protect and preserve the environment towards a greener tomorrow. According to Respondent 1, the bank's environmental focus is more on the internal programs: "In terms of the environment, most of the activities are internal programs such as save papers, save electricity and many more. It is because the bank uses a lot of paper" (Respondent 1).

However, since 2011, the bank began to actively engage in the outdoor environmental activities such as: (i) conducting beach clean-up campaigns at the Pantai Taman Gelora, Kuantan and at Dungun (from Teluk Gadung to Tanah Lot covering 10 km, Pantai Teluk Lipat and Pantai Sura) (Halimi, 2012b); (ii) planting mangrove trees at the Pulau Che

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Mat Zin; (iii) tree-replanting program at the Taman Rimba Riang, Kota Damansara, Selangor; and (iv) integrating environmental issues in the modules of PINTAR like a recycling awareness program and food garden to enhance environmental awareness among school children (Respondent 19, Respondent 28 and Bank Islam Annual Report 2012).

Respondent 28 also claimed that the bank pays attention to educating the staff and the community about the planet's conservation. For instance, the bank sponsored the Coral Reef Conservation Seminar at the Sekolah Menengah Kebangsaan Paka, Terengganu on 13 April 2012 which involved 50 students as well as 50 staff from the Dungun Branch of Bank Islam for this program (Respondent 28). In addition, the staff of the bank also participated in the underwater clean-up activities surrounding the Pulau Tenggol, Terengganu (Bank Islam Annual Report 2012). This program was organized by the Ocean Elements Sdn Bhd under the Project Aquatic World Awareness Foundation which was founded by the Professional Association of Diving Instructors (Halimi, 2012a). The bank spent about RM300,000 over the past three years to sustain and conserve the environment for the future generations.

In sum, the bank conducts CSR initiatives in relation to four pillars: the workplace, marketplace, community and the environment. However, as an Islamic business entity, the bank may consider another pillar, which is the religious pillar, to achieve the *maqasid Shariah* and *maslahah ammah* as well as to discharge accountability to Allah and other human beings for the betterment of the Muslim community. For instance, the bank may be actively involved in producing more *Shariah* scholars in the Islamic banking and finance industry by financing their tuition fees. In a similar vein, this study suggests that

the bank may conduct or sponsor more religious activities nationwide to improve Muslims' understanding of Islamic teaching and values. These obligations are part of *fard kifayah* of Muslim businessmen to the Muslim society.

5.3.3.1 Combining Two Pillars in One CSR Program

Bank Islam tries to combine two pillars or more in one CSR program (Respondent 1 and Respondent 17). For instance, the bank conducts a program which involves its clients, employees as well as local communities. Thus, it involves more than one pillar such as the marketplace with the community, the environment with the community, and the workplace, community and environment. Respondent 1 explained one example:

> For Home Project at Kedah… we deal with local contractors at that particular area [Pokok Sena]. So, for the purpose of value of chain, we try to localize the event…All of these three contractors are our internal clients…. That's why I called... marketplace and community is now joined. That is so fantastic and that's how we try to do it.
>
> (Respondent 1)

Moreover, in some CSR event planning, the bank combines the CSR event with the business event or vice versa (Respondent 10, Respondent 12, Respondent 17, Respondent 19 and Respondent 28): "CSR is … when the product will be launched, normally we combined the event with the CSR activities, invite orphanage to join the event" (Respondent 17). Respondent 17 and Respondent 28 also claimed that the bank usually plans to achieve two objectives in one event, for instance: "If we have CSR event in school [community project], we also invite parents to join the event. For instance, a talk about Islamic banking… we have to do like that… that is business strategy [marketplace]" (Respondent 17).

5.3.3.2 The Main Pillar of CSR – Community

The bank places a higher priority on the community projects because it exists in the community: "We have more on community. I think this area is we focus more… we have orphanage, build new home to the underprivileged and many more" (Respondent 1). Respondent 1 explained that: "this is our main target, because the community projects cover education program… in terms of the destitute also part of the community, from health and indisposition also part of the community, homeless also part of the community issues... the coverage of the community is wide".

Respondent 28 held the same view: "These four pillars are considered enough to Bank Islam … especially on the community. We engage in the community aspects and the scope is very wide and comprehensive". This view was shared by several other respondents such as Respondent 6, Respondent 16, Respondent 17, Respondent 19 and Respondent 28. Respondent 16 explained that, in determining the CSR initiatives, Islam puts some priorities on the social issues particularly in education. Furthermore, Respondent 19 claimed that from the previous practices, the bank puts more priority on the community, followed by the marketplace and the environment. However, the priority of the CSR area may change from year to year: "This ranking is changed… this year, the environment gets more budgets than the marketplace" (Respondent 19). There are several underlying reasons for conducting more community projects as mentioned by the respondents, such as:

    i.   "because we exist around the community… our staff are in the community. Our staff are part of the community. So, that is our community" (Respondent 1);

ii.   "because it concerns nationwide … and the cluster of community is wide and community is one of the main pillars. Then, because of… we have the *zakat* fund" (Respondent 28);

iii. "We conduct more CSR events at kampong [villages] such as the *Majlis Qurban Aidil Adha*, *zakat* contribution, *waqf* Al-Quran, housing projects [construction and renovation]. Actually, we focus more on the villagers because the major consumer of Bank Islam's products is villagers" (Respondent 17). Respondent 17 also claimed that the focus on consumers in conducting CSR is aligned with the business strategy of the bank because 73% of the bank's stakeholders are consumers, and consumer banking remains the bank's key business driver (Bank Islam Annual Report 2009).

iv.   "We conduct more on the community programs because we have a various funds to be used for and of course we can use the *zakat* fund for the community projects. Automatically, the *zakat* is for the community" (Respondent 28). This view was shared by Respondent 7 who stated that most of the community projects used the *zakat* fund.

This finding is supported by a prior study that concluded that Malaysian Muslim managers have placed a priority on the community involvement to promote their CSR initiatives (Muwazir *et al.*, 2012). It may be suggested that the bank engages more in community projects because it exists in the community.

In addition, a significant amount of CSR funds is derived from the *zakat* fund; therefore, the bank should distribute properly the *zakat* to the *asnaf* (beneficiaries of the *zakat* fund) in the community (give back to the community). Another reason is that companies in other developing countries also place a high concentration on community projects (Katamba *et al.*, 2012; Virakul *et al.*, 2009). It may be suggested that is due to the incapacity of governments in those countries to provide basic facilities to the community, so that companies should help governments in community development as part of their CSR initiatives (Valente & Crane, 2010).

Thus, being a GLC (after *Lembaga Tabung Haji* (Pilgrim Fund Board) became its ultimate holding company by virtue of its 51% controlling stake in BIMB Holdings Bhd in 2009), the bank realizes its responsibility to help the government to enhance the wellbeing of society and the coverage of its community projects is wide, including the education sector, the poor and destitute as well as health issues. Amran and Devi (2008) point out that GLCs have a responsibility to fulfill the government aspirations to maintain their strong inner stability through the government's support. To sustain in the CSR engagements, the bank should consider internal and external factors that may influence such engagements. The next section explains about these factors.

5.4 Factors Influencing CSR Engagement

There are several factors that may influence the CSR engagement of Bank Islam. In this study, these factors are classified into external and internal factors.

5.4.1 External Factors

According to Respondent 9, the external factors can be accessed in a structured way by employing the political, economic, social and technology (PEST) analysis. For instance, in relation to the political aspect, incentives from the government and involvement of GLCs in the CSR activities may provide a push to companies such as Bank Islam to engage in such activities. From the economic perspective, an economic downturn may impact CSR initiatives if the CSR budget comes from marketing or advertisement and promotional expenses. This is because, normally, companies will cut the marketing expenses and reduce the pool of money for CSR activities during an economic downturn, so few CSR activities can be done (Respondent 9). Respondent 9 stated that, in the social aspect, the bank has a direct impact or responsibility to serve the local community in the business area and the bank has allocated funds to give back to the society. The technology aspect may not have an effect on the issue of CSR engagement.

Generally, several factors such as religious obligations, the business environment and pressure from various stakeholders have been identified as factors that influence the CSR practices at Bank Islam. As an Islamic business organization, the bank has a religious obligation to pay the business *zakat* to the *zakat* authorities in Malaysia (Respondent 8, Respondent 9, Respondent 16, Respondent 22 and Respondent 23). Respondent 8 concluded that the bank's CSR is more determined by the *zakat*: "It is more determined by the *zakat*. How much we pay (*zakat*)?". Furthermore, most of bank's CSR initiatives

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are conducted during *Ramadhan* (the fasting month) and *Syawal* (Muslim celebration). According to the Bank Islam Annual Report 2012, participating in *Ramadhan* provides an extra incentive to the bank to conduct more social activities in the community during which more than RM200,000 in *zakat* has been distributed to 1,139 *asnaf* (individuals and welfare organizations) in 2012.

For example, Bank Islam organizes the *Majlis Berbuka Puasa* for senior citizens, orphans, single mothers, media operators and *muallaf* and the *Aidilfitri* Open House for corporate clients, the staff of the bank and the orphans nationwide each year. Respondent 1 claimed that: "At Bank Islam … during *Ramadhan*, we conduct more initiatives… and some of them are from our staff" (Respondent 1). The bank recognizes *Ramadhan* as a significant month for nurturing the virtue of charity among the staff of the bank (who also take part in donating and contributing the money to be distributed to the targeted *asnaf* (Bank Islam Annual Report 2010 and 2012).

Furthermore, the dual financial system in Malaysia provides a good avenue for the bank to compete with other conventional banks as well as other foreign banks in offering the banking and finance services (Respondent 9). As the competition in this industry becomes stronger and more challenging, the bank should be more aggressive and focus on business sustainability (Respondent 8, Respondent 15 and Respondent 17). This target will be achieved by conducting more CSR initiatives to leverage the reputation of the bank (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 12, Respondent 17, Respondent 19, Respondent 22, Respondent 24 and Respondent 28).

Another factor that influences the CSR engagement is pressure from the external stakeholders (or, as the respondents call it "stakeholder aspiration"), especially from the government agencies, regulatory bodies, potential investors, shareholders, customers and local community regarding their expectations of CSR engagement (Respondent 1, Respondent 6, Respondent 8, Respondent 9, Respondent 12, Respondent 17, Respondent 19, Respondent 23 and Respondent 28):

> Being a GLC… it means the driver may be is the government force or incentive wise for CR programs. Furthermore, may be from market capitalization perspective… investors' perspectives. Certain investors may want to see a company participates in the CR activities as part of their consideration for investment.
>
> (Respondent 9)

The government has played a significant role in encouraging the culture of CSR among companies in Malaysia by launching the Bursa Malaysia CSR Framework in 2007 and providing several incentives to companies to conduct more CSR activities (Respondent 8, Respondent 9, Respondent 14 and Respondent 19). For instance, Respondent 14 claimed that in the Budget 2012:

> When we look at the budget tabled, the government does not able to provide everything. So, when the government allows private sectors to participate in social agenda, it will help society… that is good. For me, the government is proactive and supportive the involvement of companies in the CSR activities.
>
> (Respondent 14)

As a GLC, Bank Islam should follow all the requirements and guidelines proposed by the regulatory bodies that govern GLCs such as the introduction of Silver Book by the Khazanah Nasional: "I think after the Silver Book has been introduced to the GLC, it [CSR] starts boost... so called, understanding or realization of the importance of CR activities. That is one of the key contributors" (Respondent 9).

In addition, a strategic alliance with third parties such as government agencies (federal and state governments like the *Jabatan Kebajikan Masyarakat* (JKM), state religious authorities (like the *Majis Agama Islam Negeri Kedah*), customers of the bank (who are also contractors, caterers and suppliers of goods), media operators, NGOs, schools, universities, local authorities and residential committees may provide significant support and synergy to the bank's CSR management process (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 10, Respondent 12, Respondent 13, Respondent 14, Respondent 15, Respondent 17, Respondent 19 and Respondent 28). Most of the respondents who were staff of the bank claimed that the commitment and support from the third parties may lead to the creation or maintenance of a good relationship with these external parties for the sake of business as well as the image of the bank.

The success of the bank' CSR activities are also driven by the commitment and support of the organizational beneficiaries (Respondent 1, Respondent 8, Respondent 9, Respondent 10, Respondent 12, Respondent 13, Respondent 14, Respondent 15, Respondent 16, Respondent 19, Respondent 21 and Respondent 28). For instance, in the case of the PINTAR program, the program is carried out successfully because the bank receives: (i) strong teamwork and full support of the teachers and the management of the participating schools; (ii) participation of the students; (iii) involvement of the parents; (iv) cooperation from the local community; (v) a selection of activities in the program based on the submitted proposals; (vi) support and advice from the Khazanah Nasional in managing such a program; and (vii) collaboration with third parties such as the New Straits Times, the International Islamic University Malaysia and the local authorities to

run the activities (Respondent 1, Respondent 10, Respondent 19, Respondent 20 and Respondent 21). On top of that, the participating schools need to establish and maintain a close relationship with the bank in managing (planning, implementing, coordinating and communicating) the activities (Respondent 10, Respondent 20 and Respondent 21).

In sum, Figure 5.1 lists the external factors that may influence the CSR engagement of Bank Islam. Based on the analysis of these factors, this study documents that there are six main factors that have been emphasized by respondents, which are: (i) social responsibility; (ii) religious obligations; (iii) *Ramadhan* customs; (iv) business environment; (v) pressure from various stakeholders; and (vi) strategic alliances with third parties. These main factors are further discussed in Chapter 7. Many studies in Malaysia also affirm that the socio-cultural elements such as beliefs or religion, attitudes, customs, values and norms of society in which the organization operates may also influence the CSR engagement (Dusuki & Yusof, 2008; Saleh *et al.*, 2010; Zulkifi & Amran, 2006).

Other factors like political will, economic condition and regulatory requirements are least mentioned by the respondents. It may due to not all respondents are aware about the importance of conducting environmental scanning before designing any CSR initiatives. The environmental scanning is employed to understand the external factors that may affect the CSR initiatives. Hence, from the above discussion, in designing and implementing CSR, an organization should examine carefully the external factors to alert the management team about the main issues and trends the organization faces (Werre, 2003).
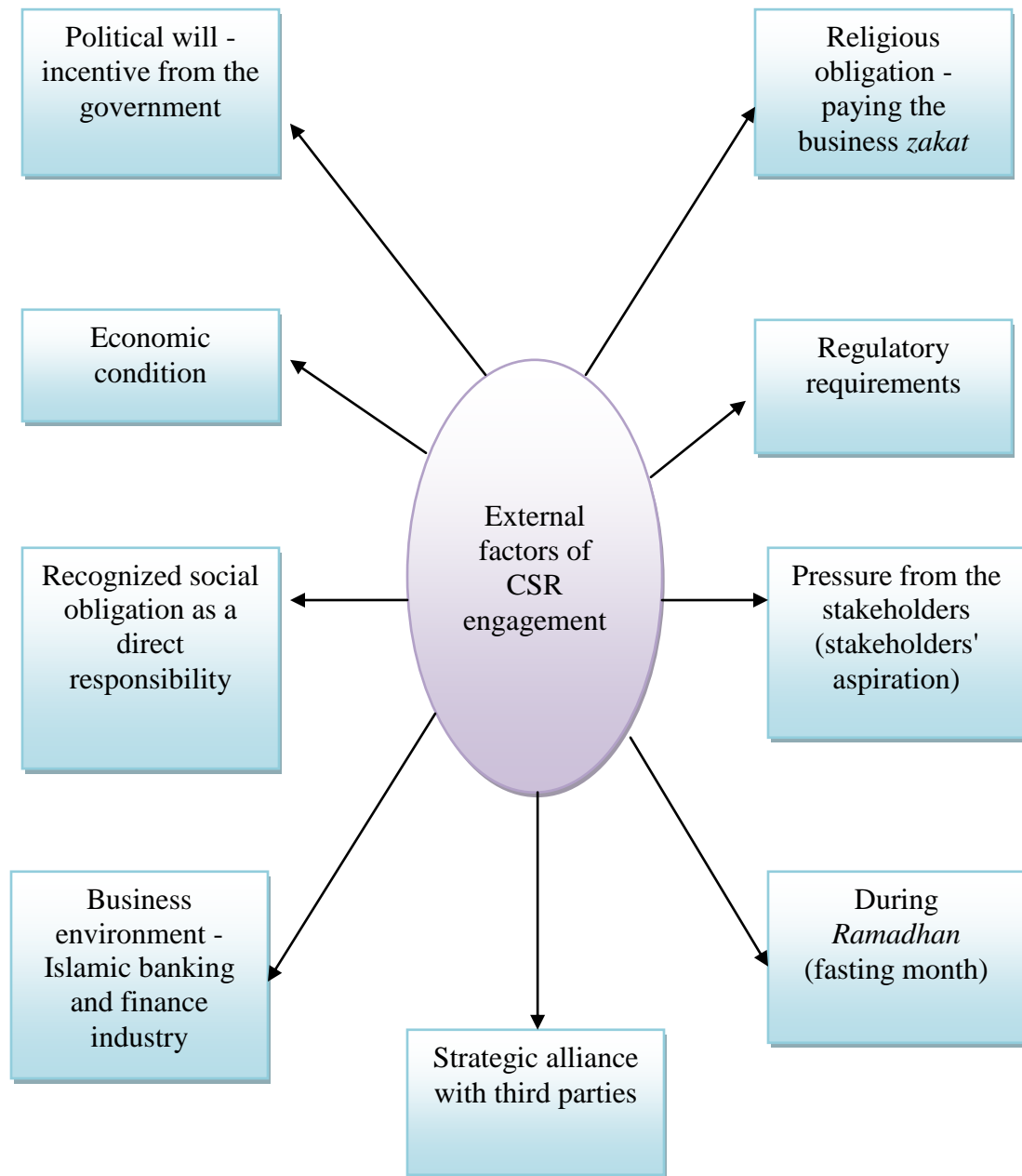
Figure 5.1
External Factors of CSR Engagement

5.4.2   Internal Factors

According to Respondent 1, Respondent 6, Respondent 8, Respondent 15, Respondent 17, Respondent 24 and Respondent 28, the shortened name of the bank "Bank Islam" (which portrays the image of Islam) also leads the bank to be perceived as a charitable organization or a bank with a social face. For this reason, the bank should conduct more CSR activities than other organizations: "Bank Islam, as an Islamic organization, the bank should conduct more CSR activities than other banks" (Respondent 16). Prior studies also claim that Islamic banks have a social face (Arshad *et al.*, 2012; Mohammed, 2007; Sairally, 2013) whereby the banks are not merely responsible for profit making but also for helping the surrounding societies (Abdul Rahman *et al.*, 2010; Dusuki, 2008a; Maali *et al.*, 2006; Yusof & Bahari, 2011) in order to achieve *maqasid Shariah* and *maslahah ammah* (Basah & Md Yusuf, 2013; Platonova, 2013; Sairally, 2013).

The nature of the business itself (i.e. the banking and finance services) also pushes the bank to implement a culture of CSR as part of its corporate values by placing some priorities on managing its stakeholders especially in offering the best services and products to its customers (Respondent 1, Respondent 6, Respondent 8, Respondent 9, Respondent 11, Respondent 16, Respondent 19, Respondent 24 and Respondent 28). The presence of the bank all over the nation provides a good avenue and wide accessibility to conduct as many as CSR initiatives as possible among its stakeholders (Respondent 1, Respondent 9, Respondent 17 and Respondent 28).

In addition, Bank Islam needs CSR to appropriately position the bank in the Islamic banking industry. CSR has an important role in the industry: "For me it [CSR] is not a marketing gimmick, but it is about repositioning in the industry… that kind of thing.

People point the word CR becomes an important role" (Respondent 9). Previous studies also state that the nature or type of the industry (Amran & Devi, 2008) has some influence on organizations' CSR initiatives. According to studies by Abdul Rashid and Ibrahim (2002) and Amran and Devi (2008), the financial sector shows more positive attitudes towards CSR engagement than other types of industries because the financial sector believes that, by engaging in the CSR initiatives, the long run profitability of company may be improved (Abdul Rashid & Ibrahim, 2002).

Another factor that contributes to the aggressiveness of the bank in conducting CSR initiatives is the rebranding of the bank in August 2007. This view was held in unison among all the respondents, especially the respondents who were staff of the bank: "Now, after rebranding of the bank, [there are] a lot of improvements… in terms of management and so on" (Respondent 6). After the rebranding of the bank, many efforts were made to manage the CSR activities in a more systematic such as: (i) improving the management of the *zakat* fund to university students (discussed further in Chapter 7); (ii) promoting CSR initiatives as part of the business agenda; (iii) establishing a CR Department to manage CSR activities; and (iv) being guided by Khazanah Nasional Berhad. Respondent 22 commented on this issue as follows: "So, our CSR… was not so active at early stage… just in small scale and we more on the *zakat* distribution. But now, 3 to 5 years back… after rebranding, we can see that the CSR is really working at the bank".

According to Respondent 8, another factor that contributes to the success of the CSR management at Bank Islam is the ability of the bank to conduct such activities: "You must have an ability [financial and human resources] to do it [CSR]… even we are a GLC, we never have any privilege by the government". The ability here refers to the

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ability to survive or compete in the dual banking system in Malaysia and also having the financial and human resources to support the CSR program. On top of that, the bank needs a sufficient amount of CSR funds (from various sources such as the *zakat,* budgeted figures from the bank and donations) to conduct such initiatives (Respondent 1, Respondent 8, Respondent 17, Respondent 19, Respondent 22 and Respondent 28): "I think whatever it is, the budget [CSR fund] comes first. The money is supposed to be there" (Respondent 22). Respondent 28 also made this point as follows: "In order for us to execute the event [CSR]… we need to have some budgeted money".

Moreover, the value and attitudes of management team towards CSR is considered to be among the factors that contribute to the CSR engagement by the bank "The current management team is more proactive in terms of involvement in the community's activities" (Respondent 7). This point was agreed by Respondent 6, Respondent 7, Respondent 8, Respondent 15, Respondent 17, Respondent 18, Respondent 23, Respondent 24 and Respondent 25 and Respondent 28. Respondent 28 claimed that the directives and discussions from the top management to the bottom (employees) are important in designing the CSR initiatives.

In addition, the leadership style of the Managing Director and the Head of Corporate Communications may influence the bank's CSR engagement (Respondent 9, Respondent 7, Respondent 17, Respondent 24 and Respondent 28): "Leadership of Bank Islam sets direction, creates visions and excitement, aligns resources, motivates and inspires CR initiatives" (Respondent 9). The outstanding leadership of Dato' Sri Zukri Samat (Managing Director of Bank Islam) has been acknowledged by the Brand Laureate Brand Icons Leadership Awards 2011 and the Global Leadership Awards 2011 (Bank Islam

Annual Report 2011). From the Islamic perspective, a manager's good personality and ethical characteristics such as capability and honesty (Quran 12:54–56) are crucial in contributing to a great organization and surviving in a competitive environment (Salleh, 2001).

There was a shared view among all respondents (especially the bank staff) that the bank's CSR engagement has been improved by the commitment and involvement of all members at the bank especially the top management and the staff of the CR Department itself: "So far…in terms of commitment, cooperation-wise it is very good" (Respondent 7). The Bank Islam Annual Report 2011 (p. 169) asserted that "Staff involvement and 'community buy-in' has underscored all its CR initiatives". Respondent 19 explained that the participation of the staff in the CSR initiatives is considered as part of the KPI measurement. Respondent 19 and Respondent 28 also emphasized that, in conducting the CSR events, the commitment and passion of staff involved are important to ensure the success of the program.

The full support and participation of the bank's staff and inter-department collaboration in conducting the CSR events has lead to the inculcation of a sharing and caring culture at the bank as well as a culture of volunteerism among the staff (Respondent 1, Respondent 6, Respondent 7, Respondent 12, Respondent 15, Respondent 16, Respondent 17, Respondent 19, Respondent 23, Respondent 24 and Respondent 28). Moreover, the mutual understanding and discussion among staff in the Corporate Communications Department make the process of managing CSR initiatives run smoothly (Respondent 1, Respondent 19 and Respondent 28). As a result, their commitments may improve the effectiveness of the program and ensure the satisfaction of the staff (Respondent 1,

Respondent 6, Respondent 7, Respondent 12, Respondent 15, Respondent 17, Respondent 19, Respondent 22, Respondent 24 and Respondent 28).

The employees may be willing to get involved and support the CSR initiatives inherently if they understand and are aware about the concept of CSR (Maignan *et al.*, 2005; Maon *et al.*, 2009). Educating employees (Beekun, 1997; Lu & Castka, 2009; Werre, 2003) through workshops, seminars and conferences related to CSR is an opportunity for management to create personal awareness among the staff and share the issues and knowledge of CSR across the organization. Conversely, not all members of the bank are willing to participate in the voluntary efforts to support the CSR activities of the bank: for example, not everybody has the aptitude to work in communities (Respondent 9 and Respondent 28). The bank should demonstrate its appreciation and make some acknowledgment of the commitment and teamwork of the staff who are involved in the CSR activities by sharing their efforts with other members at the bank (Respondent 1, Respondent 24 and Respondent 28).

Furthermore, since the bank has been labeled as a charitable organization, the staff should also follow and practice the Islamic teachings in all aspects of the business operation and services, especially in designing and implementing the CSR initiatives in the best way (Respondent 6, Respondent 7, Respondent 15, Respondent 16 and Respondent 28). The staff should also have good inter-personal and communication skills to manage the CSR initiatives particularly to handle the customers and their complaints (Respondent 6, Respondent 7, Respondent 24 and Respondent 28).

The bank should also create and maintain a good relationship and rapport with its internal stakeholders such as the employees, shareholders, customers and other strategic partners (such as the universities, government agencies, state governments and institutional investors) as part of the effort to encourage the CSR agenda at the bank (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 12, Respondent 13, Respondent 17 and Respondent 24): "Close relationship with various stakeholders is an indispensable part of the business and it is not possible for the company to create value without the active participation of the stakeholders" (Respondent 9).

In addition, the shareholders – especially institutional investors like the Employees Provident Fund and the *Permodalan Nasional Berhad* – support the CSR engagement of the bank (Respondent 9). Their commitment and encouragement provide a push factor to the bank to implement the CSR initiatives (Respondent 1, Respondent 8, Respondent 9, Respondent 24, Respondent 25 and Respondent 28).

In sum, Figure 5.2 summarizes the internal factors that may influence the CSR engagements of Bank Islam. These factors are considered as main factors because the majority of the respondents have highlighted these factors that contribute to the aggressiveness of the bank in conducting the CSR initiatives, (i) the name of the bank (i.e. Bank Islam); (ii) the nature of the business; (iii) rebranding of the bank in 2007; (iv) the commitment and involvement of the bank's staff members; (v) the values and attitudes of the management team; (vi) the amount of CSR funds; and (vii) good relationship with internal stakeholders. These factors are discussed further in Chapter 7.

Name of the bank: Bank Islam (has social face)

Value and attitude of management team

Nature of the business

Internal factors of CSR engagement

Commitment and involvement of the bank's members

Rebranding of the bank in 2007

Good relationship with internal stakeholders

Sufficient amount of the CSR fund
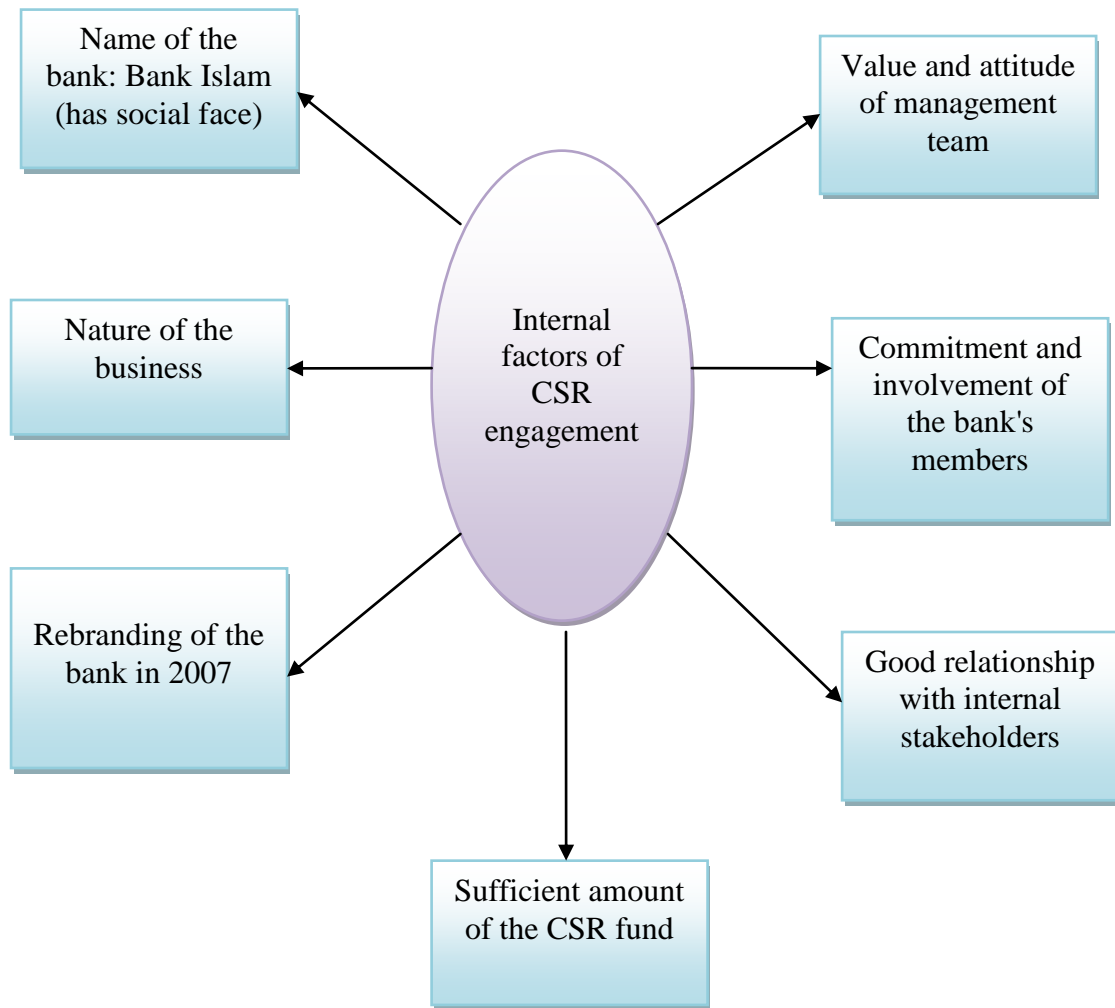
Figure 5.2
Internal Factors of CSR Engagement

5.5   Benefits of CSR Engagement

All business players recognize the value and benefits of engaging in and sustaining the CSR initiatives. The benefits cover tangible and intangible aspects from the perspectives of the religious, social, economic and environment effects on all stakeholders including the organization itself. This view was expressed by all the respondents. All of the respondents agreed that the CSR engagement is important and has a special role not only for the bank but also to the community that the bank serves:

> Through the CSR initiatives performed as well, it can enhance the bank's brand reputation and the perception that stakeholder have on their interaction with the company. Other factors include: (i) CSR efforts are part of the global citizenship initiative of the business; (ii) combat negative publicity; (iii) helps to recruit, motivate, and retain employees; (iv) attract   consumers   to   buy   a company's products or subscribe their services; (v) reduction in costs through waste   reduction;   eco-friendly   operations   and   energy   conservation;   (vi) integral   part   of   a   company's   risk   management   efforts;   and   (vii)   marketing strategy to disseminate the company profile to the minds of the shareholders.
>
> (Respondent 9)

For Bank Islam, conducting CSR initiatives may provide a good opportunity to enhance the Islamic banking and finance industry as well as to promote Islamic teachings and values which encouraging a sharing and caring culture. As mentioned before, CSR engagement should be considered as a way for business players to maintain a good relationship with Allah, other human beings (*hablun min Allah* and *hablun min an-nas*) and the environment. Such activities should be conducted in accordance with Islamic principles to get Allah blessings (*barakah*) and reward (*al-falah*) in this life and in the Hereafter. Thus, from the Islamic perspective, the benefits of CSR should cover material and non-material aspects due to the spiritual connection to Allah.

5.5.1   Fulfillment of Islamic principles and values

For the members of the bank, CSR provides a avenue for them to help others (do a good thing) and get rewards from God (as part of *fard kifayah*) (Respondent 1, Respondent 6, Respondent 7, Respondent 17, Respondent 19 and Respondent 28). The CSR engagement can fulfill religious obligations by paying the business *zakat* which can lead to God's blessing (*barakah*). It is a responsibility of Muslim business players to conduct their business in accordance with Islamic values and principles (Respondent 1, Respondent 8, Respondent 9, Respondent 16, Respondent 22, Respondent 23 and Respondent 28).

For Muslims, all deeds are considered worship if they are performing the deed with good intention, doing permissible work, making sincere efforts and submitting to Allah's will (Ahmad, 2001; Beekun & Badawi, 2005; Haniffa & Hudaib, 2002). This ultimate goal is among the key benefits of engaging in and sustaining CSR activities (Respondent 1, Respondent 9 and Respondent 28). Thus, to attain this goal, the bank should actively conduct more CSR initiatives to improve the wellbeing of all stakeholders and to encourage other business players to be good corporate citizens. This is a beauty of the Islamic perspective on CSR which gives a balanced view of benefits (both the material and non-material aspects) such as improving the employees' Islamic knowledge and practices, enhancing beneficiaries' wellbeing and improving the socio-economic status of the local community.

5.5.2 Benefits to Stakeholders

CSR engagement delivers significant benefits to all Bank Islam stakeholders such as employees, beneficiaries and the community at large. The benefits comprise material and non-material aspects like enhancing the employees' job satisfaction, inculcating a sharing and caring culture and also improving the community's quality of life. Such benefits may be observed through the social and economic impacts on the stakeholders.

(i)   Benefits to Bank Islam Employees

For Bank Islam, most of the CSR benefits are targeted to its employees to improve their job satisfaction. This is because, when they engage in CSR activities, they may contribute some valuable efforts to the bank as well as to the community that is outside the normal scope of their work (Respondent 1, Respondent 24 and Respondent 28). This situation creates a good working environment for the employees (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 12, Respondent 13, Respondent 17, Respondent 22, Respondent 24 and Respondent 28). Furthermore, the CSR engagement also may encourage the employees of the bank to help the underprivileged and to share their prosperity with others (Respondent 1, Respondent 6, Respondent 9, Respondent 12, Respondent 13, Respondent 16, Respondent 17, Respondent 19, Respondent 24 and Respondent 28).

The bank's employees believe that their good efforts will be rewarded in the Hereafter and that CSR is a good platform to inculcate the sharing and caring culture among them and to build a bridge to create relationships with the community. Furthermore, the bank organizes religious talks (*tazkirah*), Islamic discussions (*ceramah and usrah*) and other religious activities to improve the staff's knowledge of Islamic practices and teachings

(spiritual benefits) (Respondent 8, Respondent 9, Respondent 16, Respondent 19, Respondent 24, Respondent 25 and Respondent 28). In addition, the level of employee retention could be enhanced if the employee welfare is being taken care of by the bank (Respondent 7, Respondent 12, Respondent 13, Respondent 15, Respondent 17, Respondent 22, Respondent 24 and Respondent 25): "If we want to know whether that employer is good or not… we look at the level of job retention. If the employees keep changing… we notice that there is something wrong with the employer" (Respondent 17).

In 2012, the bank's staff attrition rate was at 5% (which was below the industry average of 12% to 15% per annum), indicating the employee satisfaction with the bank's commitment to be an "employer of choice" (Bank Islam Annual Report 2012). Most of the respondents (especially the bank's staff) were satisfied with the bank's human development programs (training and development program), salaries, allowances, performance bonuses, compensation schemes and performance measurement system. These efforts are done to promote a conducive and harmonious working environment as well as to develop and enrich its human capital competencies for individual staff member's career progression opportunities (Bank Islam Annual Report 2010). This finding is supported by prior studies indicating that employee satisfaction may be improved if employee welfare is taken care of by the employer (Middlemiss, 2003; Werre, 2003).

In addition, according to Respondent 19, Respondent 24 and Respondent 25, the bank has introduced the payment holiday scheme, as well as other financing schemes to the staff at special rates (such as car loans, staff house financing scheme, personal loans, sundry loans and festival advances). The payment holiday scheme has also been offered to the bank's customers since February 2008. This scheme allows the customers to skip the monthly deduction in November and December throughout their financing tenure in order to reduce the pressure of year-end expenses such as back-to-school spending, annual holidays or festive season expenses (Respondent 1). The efforts of the bank in improving the welfare of its employees were recognized when the bank was ranked at second place among GLCs in a survey on the GLC Transformation Program (Bank Islam Annual Report 2011). The Putrajaya Committee on GLC Performance also rated Bank Islam in the Good Practice on Leadership Development Program (Bank Islam Annual Report 2010).

(ii)   Benefits to Beneficiaries

When Bank Islam engages in the PINTAR program, the participating schools get additional financial support from the corporate bodies to support their teaching and learning activities in the schools (Respondent 10, Respondent 19, Respondent 20 and Respondent 21). Furthermore, indirectly, the bank introduces the corporate values and culture to the students and exposes them to the career path at the early stages (Respondent 10, Respondent 19 and Respondent 21): "When the corporation comes in… it brings along the corporate values and cultures and students have been exposed to the real issues and problems like the Recycle Awareness Campaign. That program is at the national level" (Respondent 10). As such, the students' confidence and self-esteem can be

increased to polish their potential and enhance performance in all aspects of life (using different approaches in the teaching and learning process, such as the English Camp and Food Garden) (Respondent 10, Respondent 19 and Respondent 21). This program also provides some opportunities to the teachers and the support staff at the schools to enhance their level of motivation and skills through the staff development activities (Respondent 10 and Respondent 21). Indirectly, the involvement of the parents and local communities in the activities of the program may increase their understanding of Islamic banking and finance in Malaysia (Respondent 1 and Respondent 10).

For the beneficiaries of the bank's Home Project, they appreciate the commitment of the bank to improve their quality of life and the project goes beyond their expectations (Respondent 2, Respondent 3, Respondent 4, Respondent 5, Respondent 18, Respondent 26 and Respondent 27). In a similar vein, for the university students who receive the *zakat* from Bank Islam, this additional fund may help them to support their life and improve their academic performance (Respondent 11, Respondent 12 and Respondent 14). The students appreciate the giving and, in return, may continue to support the bank's products and services in the long run (Respondent 9 and Respondent 11). This indirect benefit to the bank was mentioned by the beneficiaries to express their gratitude to the bank. Thus, this study argues that even though the main purpose of conducting CSR initiatives is to give benefits to the stakeholders, the indirect benefits that flow from the activities to the bank are also valuable. According to Respondent 14, this contribution to the universities may help the government in enhancing the national level of education by providing the additional financial funds to support students' cost of living on campus.

All of the beneficiaries (organizational and individual) expressed thanks and gratitude to the bank's giving through the CSR programs. They hoped these valuable initiatives will be rewarded by Allah and that they would be continued proactively in the future to improve the wellbeing of society. Through these CSR programs, strategic relationships with these parties (schools, universities and government agencies) are established and maintained for mutual benefits in the future (Respondent 10, Respondent 11, Respondent 12, Respondent 14, Respondent 18, Respondent 19 and Respondent 21).

(iii)   Benefits to the Community

All of the respondents in this study affirmed that the bank's CSR programs have improved the wellbeing of local society and in the long run will reduce the poverty rate in Malaysia: "It [CSR] provides a good impact to the local community" (Respondent 1). Encouraging a culture of CSR among Malaysian citizens may help to reduce the socio-economic gap as well as to inculcate the sharing and caring culture (Respondent 1, Respondent 6, Respondent 7, Respondent 9, Respondent 12, Respondent 13, Respondent 15, Respondent 16, Respondent 19, Respondent 28 and Respondent 29). This view is supported by prior studies which claim that CSR activities may yield reduced poverty and enhance community development (Mohd Nor & Asutay, 2011; Sairally, 2013).

In addition, by sharing these initiatives with the public, many public and private sector organizations and individuals in the community may take part in such initiatives to lift the socio-economic conditions of the nation in the long run (Respondent 1, Respondent 7, Respondent 9, Respondent 12, Respondent 13, Respondent 15, Respondent 16, Respondent 17, Respondent 19, Respondent 28 and Respondent 29).

5.5.3 Benefits to the Environment

Bank Islam has organized several initiatives to preserve the environment towards a greener tomorrow and to prevent global warming (Respondent 1, Respondent 19 and Respondent 28). The initiatives to date include: (i) reducing energy, water and paper consumption; (ii) organizing the Recycle Awareness Campaign at the PINTAR schools; (iii) distributing washable bags for shopping; (iv) conducting beach cleaning events; (v) planting mangrove trees; (vi) organizing a seminar on coral reef conservation (Respondent 1, Respondent 19 and Respondent 28). According to Respondent 28, all of these efforts are done to educate and create awareness among members of the public as well as the members of the bank about the importance of preserving the environment for the future generation.

Environmental issues are the responsibility of all people, not only for business entities. However, companies have the financial and human capabilities to conduct various environmental programs through CSR initiatives on a large scale. Werre (2003) suggests that CSR activities may have a positive effect on environmental issues. Muslim scholars also suggest that Islamic business organizations may consider environmental issues and conservation in conducting their CSR initiatives (Farook, 2007; Mohd Nor & Asutay, 2011).

5.5.4 Benefits to the Bank

According to Chapra (1992), Muslim business organizations have three main responsibilities, which are: (i) moral/religious; (ii) social; and (iii) economic responsibilities. In regard to economic responsibilities, Islam recognizes the owners or shareholders' rights to run the business profitably but not at the expense of the claims of

other stakeholders (Beekun & Badawi, 2005; Haniffa & Hudaib, 2002; Ullah & Jamali, 2010). Thus, in this sense, the benefits that yield to the bank from CSR programs are indirect benefits which cover material and non-material aspects. Examples of such benefits are retaining customer loyalty, enhancing the image of the bank and strengthening the relationship of the bank with the local community. The majority of the respondents affirmed that CSR is a tool to enhance the image of the bank. For instance:

> As long as the CSR initiatives undertaken by the bank are perceived as central, distinctive, and enduring, they will contribute to the prestige of the bank and we believe apart from giving back to society, the CSR initiatives are good to the reputation of the bank.
>
> (Respondent 9)

In addition, Respondent 9 believed that CSR may contribute to the value or brand proposition for sustainability of the business through competitive advantage: "People may use [CSR]… feel that CSR gives some positive impacts in terms of contribution to their brand positioning". This view was also asserted by other respondents (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 12, Respondent 17, Respondent 19, Respondent 22, Respondent 24 and Respondent 28). The brand proposition is very important in the dual banking and finance system in Malaysia where Islamic banking competes with conventional banks (that also offer Islamic banking services) that have been established for many years (Respondent 1, Respondent 6, Respondent 9, Respondent 12 and Respondent 17). In short, this study indicates that CSR engagement may indirectly improve the bank's reputation and image for the long-term sustainability of the business. Prior studies also propose that CSR activities enhance companies' images and brand names (Amran & Siti Nabiha, 2009; Arshad *et al.*, 2012; Cooke, 2010; Saleh *et al.*, 2010).

According to Respondent 1 and Respondent 28, the bank has a good CSR program to preserve the value of the brand (as a pioneer in Islamic banking): "Leveraging our brand to the public… how good is Bank Islam" (Respondent 28). The efforts in leveraging its brand have been recognized by the following awards: (i) the Reader's Digest Trusted Brands Award for 2009, 2010, 2011 and 2012; (ii) the Brand Laureate Awards 2009, 2010, 2011 and 2012 for the Best Brand in Corporate Branding – Best Brands in Banking – Islamic bank; (iii) the Malaysia Service to Care Awards 2011 and 2012 for the Islamic bank category; (iv) the Best Islamic Bank in Malaysia by Islamic Finance News Awards 2011 and 2012; and (v) the VISA Malaysia Bank Awards 2012 - The Largest Payment Volume for Islamic Debit Card by VISA (Bank Islam Annual Report 2011 and 2012). Therefore, all organizations that engage in and sustain the CSR initiatives have the opportunity for long-term survival through competitive advantage (Amran & Siti Nabiha, 2009; Dusuki & Abdullah, 2007a; McPeak & Tooley, 2008; Muwazir *et al.*, 2012).

Furthermore, when engaging in CSR activities, indirectly, the bank has an opportunity to know its customers and surrounding community and to establish a close relationship with them (Respondent 1, Respondent 6, Respondent 8, Respondent 7, Respondent 9, Respondent 12, Respondent 13, Respondent 16, Respondent 17, Respondent 19 and Respondent 24). The bank may use this opportunity to penetrate the market and to promote its products and services (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 12, Respondent 13, Respondent 16, Respondent 17, Respondent 19 and Respondent 24).

In addition, the CSR activities may attract new customers and sustain the loyalty of existing customers in using the bank's products and services (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 10, Respondent 11, Respondent 12, Respondent 13, Respondent 14, Respondent 15, Respondent 17, Respondent 19, Respondent 24 and Respondent 28). When the pool of depositors' funds and shareholders' funds is large, it may drive improved business opportunities and also the profitability of the bank (Respondent 1, Respondent 6, Respondent 8, Respondent 12, Respondent 17, Respondent 19 and Respondent 24).

However, from the Islamic perspective, the main objective of CSR activities is to fulfill religious obligations and to increase the wellbeing of stakeholders including the general society. Thus, any indirect benefits in the form of financial or material benefits that yield from such activities to the bank may not be superseded the ultimate objective to get good rewards from Allah. On the other hand, as a business entity, the bank has a responsibility to various stakeholders including shareholders, employees and customers to run the business efficiently and profitably. Indeed, the bank may use CSR as a platform to discharge its religious, social and economic responsibilities and accountabilities to the entire spectrum of stakeholders. . To discharge these responsibilities and accountabilities, the bank may need to identify and overcome several challenges that may influence the CSR engagements. These challenges are explained in the next section.

5.6 Challenges in CSR Engagement

As an Islamic business entity which carries the name of Islam, the bank should always avoid unethical practices or negative CSR in order to protect the bank from a bad image among the public and in the market (Respondent 1, Respondent 6, Respondent 8, Respondent 9, Respondent 17, Respondent 19 and Respondent 28). Furthermore, the bank faces some challenges in the CSR engagement particularly: (i) to fulfill the stakeholders' aspirations to conduct more CSR initiatives while at the same time operating the bank as a for-profit organization with obligations to its shareholders, employees, customers and strategic partnerships; (ii) to handle its internal resources for the CSR engagement such as the financial constraints and staff involvement; and (iii) to manage the CSR activities in more systematic way with high impacts.

(i) Fulfillment of Stakeholders' Aspiration

The Muslim community perceives Bank Islam to operate the business in accordance with all *Shariah* guidelines and principles and the bank is part of their life (creating a sense of belonging) (Respondent 1, Respondent 6, Respondent 8, Respondent 9, Respondent 14, Respondent 17, Respondent 19 and Respondent 28). Some people in the community also perceive the bank as a charitable organization which should fulfill the expectations and demands of Muslim society (Respondent 6, Respondent 7, Respondent 8, Respondent 9, Respondent 16 and Respondent 17). This perspective makes it a challenge to the bank to maintain a good image in all aspects of the business practices and at the same time to sustain the business in a competitive industry (Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 17, Respondent 19, Respondent 22 and Respondent 28).

The bank should fairly compete in the dual banking system in Malaysia where the conventional banks also offer Islamic banking products and services (Respondent 8, Respondent 9 and Respondent 17). Being a pioneer in Islamic banking and finance, the bank has an important responsibility to sustain is role as a leader in the industry as every aspect of the business operations is taken into account as a precedent by other banks (Respondent 8, Respondent 9, Respondent 16 and Respondent 17). Thus, to overcome this challenge, the bank may conduct more CSR activities and manage these activities systematically to provide as many benefits as possible to the stakeholders.

(ii)   Handling Internal Resources of the Bank

According to Respondent 1, Respondent 17, Respondent 22 and Respondent 28, the bank needs a sufficient budget to conduct its CSR programs: "The budget will determine the calendar of events for the year… if the amount is not sufficient, we can't do a lot of things [CSR programs]" (Respondent 28). The financial constraint is among the significant challenges if the bank to sustain the programs in the future (Respondent 1 and Respondent 28): "We are just a small bank and we do not have so much money to conduct the CSR activities" (Respondent 1). In addition, the CSR fund should be managed wisely because it involves the *zakat* money and the rights and methods of distributing such funds are prescribed in the *Al-Quran* and *As-Sunnah* (Respondent 1, Respondent 8, Respondent 9, Respondent 12, Respondent 16, Respondent 17, Respondent 19 and Respondent 28).

In addition, according to Respondent 28, only two staff in the CR Department handle all the CSR programs at the bank and the coverage of the work is wide including planning, implementing, monitoring, coordinating and reporting (documentation and communications). Moreover, most of the CSR activities require travel and mobility (as it involves a lot of groundwork or fieldwork) and require staff with the aptitude to work with communities (on top of which, not all members of the bank are interested to join in the voluntary work) (Respondent 9, Respondent 19 and Respondent 28). Hence, the staff who are involved in the CSR projects may sacrifice their weekend days and family time to participate in the program (the commitments of the staff) (Respondent 1, Respondent 7, Respondent 19 and Respondent 28).

The bank should acknowledge their commitment of time by paying for the extra working hours at a reasonable rate. Not all staff are willing to participate if the event is conducted during weekend days (Respondent 7 and Respondent 28). Moreover, it is a challenge for branch managers who are involved in any CSR program to: (i) ensure the sales target of the month is achievable and the bottom line is maintained, and (ii) make sure the operations of the bank are done as usual (Respondent 7). Therefore, the bank must use its internal resources (financial and human capital) wisely to demonstrate its commitment to be a good corporate citizen. The Muslim community may appreciate this good effort by continuously supporting the bank's products and services, which in turn will improve Islamic economic development.

(iii)   Managing CSR Initiatives

In managing the CSR initiatives, the bank should deal with various constraints such as in the process of: (i) determining the eligible recipients of *zakat*; (ii) dealing with the behaviors or attitudes of the beneficiaries; (iii) monitoring the practice of organizational beneficiaries in the *zakat* fund usage; (iv) measuring the value of CSR activities; and (v) reporting and disclosing CSR.

Firstly, to determine the eligible recipients of *zakat*, the bank deals with several problems such as: (i) to access the location of the potential recipients (usually in rural areas with poor basic facilities); (ii) to evaluate the eligibility and genuineness of the potential recipients (selection is based on the information provided); and (iii) to avoid conflicts of interest (e.g. carrying out an activity recommended by a person who has a political profile in that community) (Respondent 8, Respondent 12, Respondent 13, Respondent 17, Respondent 19 and Respondent 28). Respondent 19 also claimed that among the problems in dealing with the attitudes of the potential or final recipients are: (i) too demanding (they request the bank to give them cash and they want to design and build the home on their own); (ii) not giving full cooperation to ensure the success of the program (e.g. withdrawing from the project at the half-way point); (iii) not managing their wealth and property wisely to generate more income; and (iv) having negative attitudes (e.g. not making the effort to change their life). All of these attitudinal problems need to be considered and managed carefully by the staff of CR Department of the bank.

Furthermore, the commitment of organizational beneficiaries in the utilization of the *zakat* fund should be monitored closely to avoid misuse of the fund. According to Respondent 8, there is a university (organizational beneficiary) that utilizes the *zakat* fund to settle the debts of students in that university (unless the students are poor and not able to pay the educational fees). It is a challenge for the bank to make sure all of the universities that receive the *zakat* money follow all the guidelines that have been provided (Respondent 8). Another issue in managing the CSR initiatives is measuring the impact of such initiatives on the bank as well as on the beneficiaries. Respondent 1 and Respondent 9 claimed that the bank was in the process of establishing a good measurement system to value the CSR activities that have been implemented.

However, this is not an easy task because usually the benefits of CSR engagement are in the long term and are not valued in monetary terms (Respondent 1, Respondent 9, Respondent 19 and Respondent 28). Lastly, the bank needs to overcome the challenge of how to disclose and report such activities in the publically-accessible documents such as the annual reports, websites and social networks (Respondent 1). The bank acknowledges the importance of communicating the activities to the public and the bank is in the process of hiring an expert or consultant to improve the CSR disclosure and reporting. Thus, to overcome the problems in managing the CSR initiatives, the bank needs a managerial guideline to manage these initiatives in a more systematic way.

5.7   Summary of the Chapter

For Bank Islam, the CSR engagement is considered as part of its responsibilities and accountabilities to discharge religious, social and economic obligations in order to maintain a good relationship with Allah, other human beings and the environment. The main objective of engaging in and sustaining such activities is to get good reward in this life and the Hereafter as well as to ensure the benefits of all stakeholders and the business. Thus, CSR is an integral part of the bank and has been embedded in all aspects of the business operations including in the products, product development and financing policies and is part of the organizational culture. Since the bank operates in the community, the bank realizes its responsibility to give back to the society and to take part in the community's development particularly in the home projects, educational development, health and community services.

Furthermore, the bank is proactive in inspiring the workplace by providing the conducive working environment and caring for the welfare of its employees. In a similar vein, the bank also initiates several environmental activities to provide a greener environment for future generations. Hence, this study concludes that the CSR engagement of Bank Islam is not a cosmetic action but is focused more towards the fulfillment of its religious, social and economic responsibilities and accountabilities to the stakeholders including the community surrounding the business.

For Bank Islam, there are a few factors that may influence CSR engagement such as: (i) religious obligations; (ii) pressure from various stakeholders; (iii) *Ramadhan* customs; (iv) strategic alliances with third parties; (v) rebranding of the bank; (vi) size of the CSR fund; (vii) commitment and involvement of the bank's staff members; and (viii) good

relationship with the internal stakeholders. These factors have been identified as the drivers that can influence the CSR practices. These factors should be examined carefully by the staff and managers at the bank who are involved in designing and implementing the CSR practices to get high impacts and benefits to stakeholders as well as to the bank.

Furthermore, the engagement in CSR may help the bank to: (i) fulfill the religious obligation to get a good reward (*pahala*) and God's blessing (*barakah*); (ii)) improve the employees' motivation, satisfaction and loyalty; (iii) provide a good avenue for the employees to help the underprivileged (inculcating a sharing and caring culture); (iv) improve the socio-economic status of the beneficiaries; (v) improve the wellbeing of society in various aspects (through educational, health and financial support); (vi) increase the community's awareness of the need to preserve the environment; and (vii) enhance the image of the bank. These benefits should be considered as a vehicle for the bank to actively be involved in CSR initiatives.

Nevertheless, the bank deals with a few challenges in engaging in and sustaining such activities particularly the challenge of fulfilling the demand of the society that perceives the bank as a charitable organization and also to manage the initiatives in more systematic ways (with a limited budget but achieving high impact for the beneficiaries). In addition, the bank should establish a good measurement system to assess the benefits of the CSR activities for its stakeholders particularly the recipients of the giving.

CHAPTER SIX: DESCRIPTIVE FINDINGS ON CSR MANAGEMENT PROCESS

6.1 Introduction

This chapter presents the descriptive findings on the CSR management process at Bank Islam Malaysia Berhad (Bank Islam). This chapter answers the fourth research question: **How does the CSR management process take place?** The chapter starts with an overview of the four sources of CSR funds and how these sources are managed. Then, the role of accountants (management and financial) in managing the fund is discussed. As an Islamic bank, Bank Islam needs to ensure that all business operations including the CSR practices are in accordance with the *Shariah* principles and guidelines to discharge its religious, social and economic responsibilities and accountabilities to Allah, other human beings (stakeholders) as well as the environment.

Each company has its own approach and strategy for managing CSR initiatives. This process is unique and is influenced by internal and external factors related to fulfilling the various stakeholders' expectations and aspirations. Generally, several activities are involved such as: (i) identifying the stakeholders and their issues; (ii) determining the eligible beneficiaries; (iii) designing CSR initiatives; (iv) implementing the program; (v) evaluating and monitoring; (vi) assessing current practices; and (vii) measuring. In the case of Bank Islam, the organization is also committed to disclosing and reporting its CSR activities through its website, annual reports, the local newspapers and so on. At the end of this chapter, three selected CSR programs: "Projek Bantuan Rumah: Kedah", the PINTAR program and the *zakat* contribution to universities are highlighted in detail as a mean to gain insights into the process of CSR engagement for the period under review.

6.2   Managing CSR Funds

6.2.1   Four Sources of CSR Funds

There are four sources of the CSR funds at Bank Islam: (i) the *zakat* fund (largest proportion); (ii) donation fund; (iii) non-*Shariah* compliant income; and (iv) purification fund (Respondent 1, Respondent 8, Respondent 9, Respondent 17). Firstly, the *zakat* fund is established after the bank pays the *zakat* amount (determined by accountants with the approval of the *Shariah* Supervisory Council (SSC) and management team) to the *zakat* authorities and some of the *zakat* amount has been refunded to the bank by the *zakat* authorities. Normally, the rate of refund is 3/8 or 4/8 of the *zakat* paid, based on the consensus of the *zakat* authorities (Respondent 1, Respondent 8, Respondent 9, Respondent 16 and Respondent 22). The major recipients of this fund are the three groups of beneficiaries (*asnaf*), namely, the desperately poor (*fuqara'*), the poor (*masakin*) and for Allah's Cause (*fisabilillah*).

Secondly, the donation fund is derived from several sources including donations from the bank, staff, customers and competition prizes. The donation from the bank is the budgeted amount that is allocated on a yearly basis. Thirdly, the non-*Shariah* compliant income is derived from three sources: unavoidable transactions, credit cards and syndication. Lastly, the purification fund is established after conducting the *Shariah* audit or other mechanisms to find the transactions that break the *Shariah* principles. All of these funds may establish a sum of money in the CSR fund to conduct the CSR activities. This finding suggests that the bank takes a proactive effort in helping the *zakat* authorities to distribute the *zakat* in order to establish equality among Muslims and to develop the Muslim economy by reducing the poverty rate (Abu Bakar & Abd Ghani, 2011).

(i) *Zakat* **fund**

The *zakat* here refers to business *zakat*, one type of *zakat* that is an obligatory payment

for all types of businesses as long as Muslims have interests in that business regardless of

whether the business makes a profit or loss. As an Islamic business entity, the bank has

an obligation to pay business *zakat*: "as a profitable entity doing business… you have

some obligation… in terms of *zakat.* But, in terms of CSR… it means a source of fund"

(Respondent 9). At Bank Islam, the *zakat* fund is one of the sources of money for

conducting the CSR programs (Respondent 1, Respondent 8, Respondent 9, Respondent

12, Respondent 16, Respondent 17, Respondent 22 and Respondent 28). According to

Respondent 16, normally this fund is ready in May (after payment of the business *zakat*

to the *zakat* authorities and the bank receives some refund from these authorities). The

fund should be managed in accordance with the *Shariah* principles and guidelines

(Respondent 9) as guided by the *Al-Quran* and *As-Sunnah*. There are several parties

involved in managing the fund such as the SSC, the *Shariah* Review Committee, the

Zakat Committee, the Corporate Communications and the *Shariah* Division. The roles

and the responsibilities of these related parties are stated at Table 6.1.

Table 6.1
Roles and Responsibilities of Related Parties in Managing Zakat Fund at Bank Islam

Related parties	Roles and responsibilities
Shariah Supervisory Council (SSC)	To advise the bank on the planning, calculation and report of *zakat* payment and distribution.
Shariah Review Committee (SRC)	To approve payment and distribution of *zakat* within the authority limit given by the SSC.
Zakat Committee (ZC)	To ensure the *zakat* fund is properly managed according to the *Shariah* requirements as determined by the SRC. To review and endorse *zakat* application by respective *asnaf* within the authority limit given by SRC.

Table 6.1 (continued)

Related parties	Roles and responsibilities
Zakat Committee (ZC)	To notify the SRC on *zakat* payment of the bank.
	To table the minutes of *Zakat* Committee to the SRC on bi-monthly basis.
Corporate Communications Department	To plan the distribution of *zakat* fund.
	To propose *asnaf fuqara, masakin* and *fi sabilillah* recipients based on the criteria outlined for ZC's approval and recommendation for the SRC's approval.
Shariah Division	To ensure that the application must comply with the guideline.
	To manage the payment/distribution of *zakat* as per approved of ZC, SRC or SSC.
	To produce the report of *zakat* fund based on the General Ledger provided by Finance Division.

Source: Adapted from "Business *Zakat* payment guideline", by *Shariah* Division of Bank Islam, 2012, p. 19.

Respondent 15 and Respondent 22 also claimed that the bank has additional funds for the CSR activities which are derived from the *zakat* refund: "So, at Bank Islam, we are having additional pool… because *zakat* is being considered as part and parcel of CSR [fund]. So, actually we use the *zakat* fund to promote our social responsibility and we have also A&P [advertisement and publicity allocation] in a way". Self-distribution of *zakat* is also practiced by other Islamic banks (Ab Rahman, 2011) to achieve the objectives of *Shariah* on the *zakat* obligations to help the poor and needy. However, this study proposes that the *zakat* authorities in Malaysia may provide a standardized managerial guideline to all *zakat* payer organizations in distributing their business *zakat* (if they want to do so).

(ii)   Donation fund

The donation fund is derived from many sources, namely: (i) donations from the bank (a budgeted figure in advertisement and publicity expenses (as discussed in more detail in the section on CSR budgeting); (ii) staff members' contribution through the *Kelab Kebajikan Bank Islam*; (iii) public/customer contribution (from the Bank Islam Credit

Card, during *Ramadhan* and the Bank Islam Alumni-UiTM Platinum MasterCard; (iv) sponsorship or joint venture programs; and (v) money received from competitions such as winning innovation awards from the Ministry of Science, Technology and Innovation (Respondent 8, Respondent 9, Respondent 17, Respondent 19, Respondent 22 and Respondent 28). These contributions are called *Amal Jariah* contributions.

The donation fund is contributed to by many departments and entities (Respondent 8 and Respondent 9). For instance, the collection from the public/customers using the BICC during *Ramadhan* is collected by the Bank Islam Card Division and then the fund is managed by Corporate Communications for the CSR activities (Respondent 8, Respondent 16, Respondent 19 and Respondent 28). Respondent 28 explained in detail about the collection from Bank Islam Credit Card:

> Every year… from 1st Ramadhan to 30th Ramadhan… we'll launch a charity program from the BICC which 0.3% of retail transactions will be allocated to the CSR fund. Therefore, my team will use this allocation in the following year for the CSR activities. You have to remember that the concept of the BICC is an automatic not based on request and last year we got about RM165,000 and this budget is used for Waqf al-Quran program and so on. We can use this fund for the CSR programs with non-Muslims and primitive people.
>
> (Respondent 28)

Further, in 2010, the bank contributed about RM120,000 from the *Amal Jariah* contribution to a group of the *muallaf*, less fortunate people, senior citizens, orphans and single mothers nationwide and also provided 1,400 *waqf Al-Quran* to mosques, universities, NGOs and many other places (Bank Islam Annual Report 2010).

(iii)   Non-*Shariah* compliant income (non-controlling income)

Another source of CSR funds is the non-*Shariah* compliant income, which some respondents referred to as the non-*halal* income (Respondent 9, Respondent 16 and Respondent 22). There are four examples of such sources: (i) unavoidable transactions (nostro account); (ii) credit cards; (iii) syndication; and restructuring (Respondent 9 and Respondent 16):

> We have to open nostro account at foreign country to facilitate our corporate trade customers who involve in import-export trading. So, we have to issue LC and the negotiating bank request us to open nostro account in a country where there is no Islamic banking. Then we have to park the money at that account and we receive interest…
> Number two is our credit cards… for platinum or world MasterCard… we could   not block their merchant code. If gold or classic… we can block the card if a customer wants to make payment in pub and so on. But for platinum or world MasterCard [high net worth customer] we could not do that but we have discharge our responsibility by stating at the agreement that this is not our responsibility if you use in that particular places. But, having such kind of transaction, the bank will get some shared portion of merchant fee. Then, the income will channel to our charity pool.
> Lastly, sometimes we participate in syndication… whether locally or internationally. Recently, we finance an aircraft and one of our *Shariah* advisors has made a decision to impose certain fees in the structure but the decision is not agreed by our *Shariah* Council. So, we decide any payment that we receive, we could not recognize as an income.
>
> (Respondent 16)

For restructuring exercise, Respondent 9 explained one example:

> We are in Company X and we end our position as minority… so, we do not have authority in credit decision process. Then, what will happen is… for example restructuring…credit debit restructuring committee of Bank Negara. We have been given an instrument which is non-*Shariah* compliance. Automatically, the income will go to charity pool and we could not recognize the income.
>
> (Respondent 9)

(iv)   Purification fund (controlling income)

The purification fund is derived from three main sources: (i) income from any transaction that breaks the *Shariah* rules and guidelines and can be detected during the *Shariah* audit or *Shariah* review (Respondent 9 and Respondent 16); (ii) income from any transaction that is false due to the human factor (the transaction is valid to the customer but not to the bank) and that is an operational risk (Respondent 16); and (iii) income from cleansing exercises due to the late payment charge such as *ta'widh* (compensation for actual loss) and *gharamah* (penalty for late payment resulting in financial loss) (Respondent 9). This fund is used to conduct the CSR activities (Respondent 8, Respondent 9 and Respondent 16).

> For instance, we have underlying assets, a piece of land that in term of ownership, the land is owned by somebody else [the process of transferring the ownership does not settle yet]. But the land has an economic value [located in the center of a city], then the bank rent up the land for parking space. Hence, any revenue derives from the usage of the land will go back to *Baitulmal* or to charity pool… that is another source of CSR fund.
>
> (Respondent 9)

The bank should recognize the income from these transactions as the non-*halal* income and it should not be considered as part of the profit (Respondent 16 and Respondent 22). The funds (non-*Shariah* compliant income and purification fund) are used for *maslahah ammah* and not on an individual basis (Respondent 8, Respondent 16). Furthermore, these two funds are controlled by the *Shariah* Division under the supervision of the SSC (Respondent 22 and Respondent 23) and other departments also collaborate in managing the funds such as the *Shariah* Division, the Corporate Communications and the Finance Division (Respondent 22). Thus, in conducting the CSR initiatives, the bank tries to use

several sources of the CSR fund to cater to all stakeholders' needs as well as to comply

with the *Shariah* principles and guidelines in one CSR event (Respondent 1, Respondent

7, Respondent 8, Respondent 16, Respondent 19 Respondent 22 and Respondent 28):

> If we have a program with orphanage… for food and beverages we should not use the *zakat* fund… we have to use donation fund. But, if we want to donate to the poor orphan children… they are eligible to receive *zakat* money. So, in one event, there are several funds to be used and we like to conduct the program like that.
>
> (Respondent 1)

As mentioned before, there are four sources of the CSR fund, which are: (i) *zakat* fund;

(ii) donation fund; (iii) non-*Shariah* compliant income; and (iv) purification fund

(Respondent 1, Respondent 8, Respondent 9 and Respondent 17). In the next section, the

zakat management and the budgeted allocation are discussed further due to the

complexity in managing such funds and because these two sources are among the largest

sources of funding to conduct CSR practices (Respondent 1 and Respondent 8).

In sum, Bank Islam utilizes various sources in conducting CSR activities and allocates

substantive amounts of money to establish a strong CSR fund. The strong financial

support may help the bank to discharge its religious, social and economic obligations to

stakeholders and to sustain its social activities in the long run. In this sense, the initiative

of the bank to introduce the Bank Islam Alumni-UiTM Platinum MasterCard is a

strategic way to generate a long-term budget for the CSR fund and to reflect the bank's

commitment to improving the education level of Malaysians.

6.2.2 Managing the *Zakat* Fund

At Bank Islam, the largest source of the CSR fund is the *zakat* fund (Respondent 1 and Respondent 8). This fund is mainly for the *asnaf* and the beneficiaries who receive the fund include mosques, Islamic institutions, religious schools, universities, NGOs, less fortunate people and needy homes center (Respondent 8, Respondent 9, Bank Islam Annual Report 2010). For instance, in 2012, the bank contributed more than RM5 million of the *zakat* fund to a range of social initiatives and programs such as poverty reduction projects, education, welfare support and unity programs (Bank Islam Annual Report 2012). Thus, Figure 6.1 illustrates the process of managing the *zakat* fund.

Determining the amount of *zakat*

Paying the amount of *zakat* to the *zakat* authorities

Receiving *zakat* refund from the *zakat* authorities

Planning *zakat* allocation

Selecting the beneficiaries (*asnaf*)

Implementing the CSR initiatives
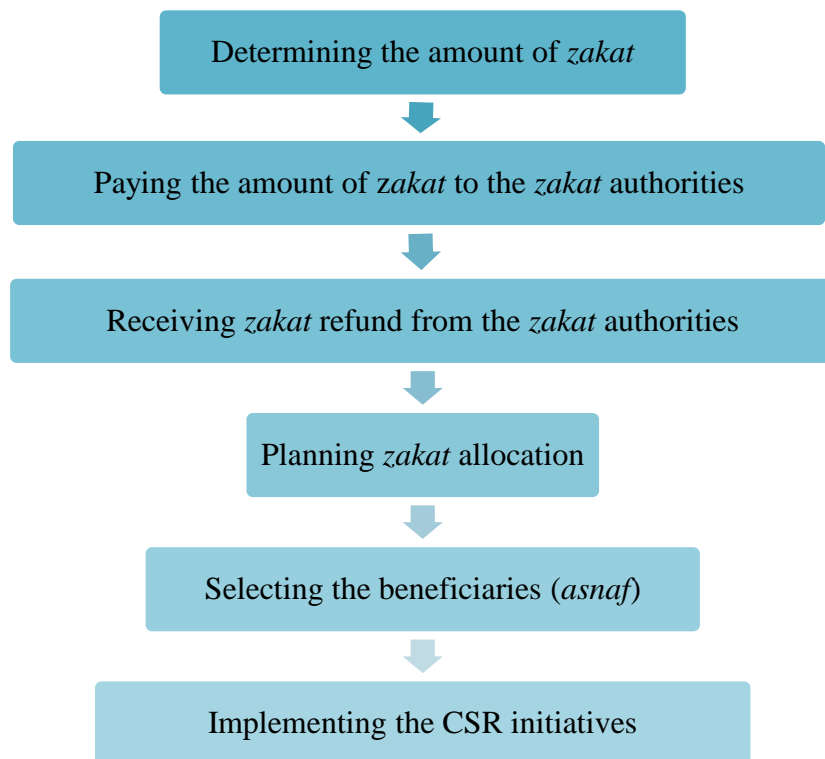
Figure 6.1
Zakat Fund Management Process in Conducting CSR Initiatives

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6.2.2.1 Determining the amount of *zakat*

As an Islamic business entity, the bank is obligated to pay business *zakat*:

> *Zaka*t that we pay is business zakat. So, business zakat is derived from two funds: depositors' fund and shareholders' fund. So, we lump together the funds that we use to run the business. Then, at the end of the day, with zakat calculation methodology, we get one figure, zakat payable, if exceed the minimum amount [*nisab*]. Then, we pay and of course, more than the minimum amount [*nisab*]. Last year [2011], for the whole group of Bank Islam… Bank Islam and its subsidiaries, not go beyond that, we pay about RM12 million.
>
> (Respondent 16)

The Central Finance Division (accountants) is responsible for determining the amount of *zakat* to be paid and the rate of *zakat* is 2.5775%. The bank employs the method proposed by the Department of *Awqaf, Zakat* and *Hajj* (*JAWHAR*), Prime Minister's Department which is the capital growth method and not based on profitability (Respondent 22 and Respondent 23). That formula is just a basis and usually the bank pays more than that (Respondent 8). Hence, Bank Islam has not failed to pay *zakat* since the first day of its incorporation regardless of profit or loss (Respondent 8, Respondent 22 and Respondent 23). Respondent 23 mentioned in detail about the method that has been used;

> We use capital growth method. That's means even we registered losses we have to pay *zakat*. Actually *zakat* is not based on performance… the basic is to purify the wealth. It means everything that we use to run the business including financing, fixed assets, investment and so on… those are the assets that we want to purify. If the *zak*at is based on profit, some people may manipulate the profit figure and to avoid paying *zakat*. Therefore, the bank uses balance sheet approach which means we consider all our possession at the end of year.
>
> (Respondent 23)

6.2.2.2   **Paying the amount of *zakat* to *zakat* authorities**

In Malaysia, the *zakat* is paid to 14 *Majlis Agama* and *zakat* authorities (Respondent 8 and Respondent 16) and the previous year's *zakat* should be determined and paid in the following year. For example, the business *zakat* for the financial year ending 2012 was paid in 2013 (usually in March onwards) (Respondent 16, Respondent 22 and Respondent 28). As religious affairs are governed by the state government, the bank pays *zakat* to the state-level *zakat* authorities. The bank replicates the system employed by the Malaysian Pilgrim Fund (*Tabung Haji Malaysia*) to determine the *zakat* to be paid to those authorities based on the deposits that come from that particular state (Respondent 8, Respondent 16).

In 2011, the bank paid the business *zakat* of more than RM11.5 million (which is the business *zakat* for the financial year ending 2010) to 14 *Majlis Agama* and the *zakat* authorities nationwide (Bank Islam Annual Report 2011). This amount was 29.7% higher than the bank's business *zakat* for the financial year ending 2009 which amounted to RM8,935,004. In addition, the bank also encourages its customers to pay *zakat* by introducing a facility to pay *zakat* via the automatic teller machine and credit card in 2003 (Bank Islam Annual Report 2010). Some of the *zakat* that has been paid has been refunded by some of the *zakat* authorities.

6.2.2.3   **Receiving *zakat* refund from *zakat* authorities**

Receiving a *zakat* refund from *zakat* authorities is a strategic alliance between Bank Islam and *zakat* authorities in several states such as *Lembaga Zakat Selangor* and *Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan*, *Majlis Agama Islam dan Adat Istiadat Melayu Kelantan*, *Pusat Zakat Pulau Pinang* and *Pusat Zakat Negeri*

Sembilan (Respondent 6, Respondent 8 and Respondent 16). The arrangements with those *zakat* authorities vary from one state to another (different approaches in different states) and sometimes they put certain restrictions on managing the *zakat*. For instance, the usage of the *zakat* refund should occur in that particular state only (Respondent 16). Normally, the rate of return is 3/8 or 4/8, based on their consensus (Respondent1, Respondent 8, Respondent 9, Respondent 16 and Respondent 22).

For Bank Islam, the *zakat* refund is enough to be distributed to the eligible *asnaf* (Respondent 8). Furthermore, according to Respondent 16, some of the *zakat* authorities understand the needs of corporate organizations to manage the *zakat* refund by itself. There are several underlying reasons for why the bank decides to manage this fund, such as to establish the *zakat* fund to conduct more CSR activities (Respondent 1, Respondent 8, Respondent 16 and Respondent 22). Respondent 16 explained: "If we just use the allocation from bank, from our pocket, how much CSR activities we can conduct. That is why we need support from the *zakat* fund" (Respondent 16). Respondent 22 also supported the argument that the bank needs the *zakat* fund to establish sufficient amount of CSR fund to conduct CSR initiatives: "If we don't have this *zakat* allocation… I think we can't sustain CSR activities like what we are doing now. We can do it… but, just in a small scale" (Respondent 22).

Another justification of having *zakat* refund is to play a role in developing the Muslim community (Respondent 6, Respondent 8, Respondent 16, Respondent 28): "We need that allocation because sometimes, the public [the poor and needy] as well as customers come to the bank and they seek for *zakat* contribution to repair their houses and some other reasons: (Respondent 6). Respondent 28 shared the same view: "When we have

zakat… we need to give back to society for their homes, the *Manjadda Wajada* programs and so on. Furthermore, we have to ensure that the recipients are eligible to receive the *zakat*" (Respondent 28). Some of the respondents believed that it may improve the Muslim economy by planning a good program with high impact on the recipients (*asnaf*) to improve their wellbeing (Respondent 7, Respondent 19 and Respondent 28). It is hoped that the recipients will use this opportunity to generate more money to improve their life (Respondent 7).

Moreover, the public and customers perceive Bank Islam as a charitable organization and come to the bank for donations for various reasons (Respondent 6, Respondent 8, Respondent 16, Respondent 19 and Respondent 24) (e.g. to support further study, repair or build a new house). Some of them see the bank as a *Baitulmal* or *Zakat* Center: "The public perceive Bank Islam like *Zakat* Centre and *Baitulmal,* but they do not know that the bank has various stakeholders such as employees, shareholders, depositors and many others" (Respondent 24). Respondent 16 shared the same view: "We [Bank Islam] are among the most popular bank in receiving letters of application [seeking donations] from the public" (Respondent 16).

In addition, since the branches of Bank Islam are located all over Malaysia, the bank can directly access society as well as potential recipients (Respondent 1). This is part of its *fard kifayah* and accountability of the bank to help the local community. The staff of the bank build close relationships with the community leaders who indirectly pass on the problems of the community members to the bank. Therefore, the accessibility of the recipients becomes much broader and closer.

6.2.2.4   *Zakat* allocation planning

Most of the respondents (particularly the staff of the bank) agreed that a significant amount of the *zakat* fund has been allocated to build houses and other facilities for the needy and underprivileged all over the country. This fund is also used to help educational development through distributing the *zakat* to students in schools and universities nationwide and to improve basic facilities in various mosques and Islamic institutions. Respondent 9, Respondent 19 and Respondent 28 suggested that in the *zakat* allocation planning, the bank needs to have proper planning on distributing the *zakat* money as well as the activities that it plans to conduct.

Other than conducting the programs as planned, the bank also provides some funds to help local communities that have faced unexpected disasters. For instance, in November 2010, the bank rendered financial assistance by donating the *zakat* amounting to RM100,000 to flood victims (Bank Islam Annual Report 2010). Within one year of receiving the *zakat* refund, the bank must distribute it to the beneficiaries (maximize the usage of the fund) in the best approach (Respondent 1, Respondent 7, Respondent 16 and Respondent 28) to the Malaysian citizens only (Respondent 16, Respondent 19 and Respondent 28).

At Bank Islam, the management of the *zakat* fund is monitored and reported to the SSC of the bank (Respondent 8 and Respondent 23). The bank also follows the Business *Zakat* Payment Guideline (Respondent 16 and Respondent 28). This guideline is used "to provide a standard guide to be followed by the bank's staff in managing the payment of bank's business *zakat* and also to set out the requirements to the bank's business *zakat*

payment to ensure compliance with *Shariah* requirements as determined by *Shariah* regulatory councils" (Business *Zakat* Payment Guideline, 2012, p. 9).

6.2.2.5 Selecting beneficiaries (*asnaf*)

The bank is regulated by certain parameters in the Business *Zakat* Payment Guideline (Respondent 16 and Respondent 22) and also establishes strategic alliances with the government agencies and the religious councils to identify the beneficiaries. The main target beneficiaries (*asnaf*) are in three groups: the destitute, the poor and for the cause of Allah (Respondent 8 and Respondent 16). Recently, the bank decided to allocate some of the *zakat* fund to the new Muslim brothers and sisters (*muallaf*) (Respondent 16). Furthermore, several authorities are involved in approving the amount of *zakat* to be distributed to the *asnaf* such as the *Shariah* Review Committee, the *Zakat* Committee and also the Head of the *Shariah* Division (Respondent 28 and (Bank Islam Malaysia Berhad, 2012). Table 6.2 states the approving authorities with their budget limits.

Table 6.2
Approving Authorities and Their Budget Limit

No.	*Asnaf*	Limit	Authority
1.	*Fuqara, masakin* and *Muallaf al-Qulub*	≤RM10,000	*Zakat* Committee
		>RM10,000	*Shariah* Review Committee
		≤RM1,000	Head of *Shariah*
2.	NGO/Institutional	≤RM20,000	*Zakat Committee*
		>RM20,000	*Shariah* Review Committee
		≤RM1,000	Head of *Shariah*
3.	Universities and colleges (educational assistance)	≤RM30,000	*Zakat* Committee
		>RM30,000	*Shariah* Review Committee
4.	*Zakat* to eligible staff	Any amount	*Shariah* Review Committee
5.	Other *asnaf*	Any amount	*Shariah* Review Committee

Source: Adapted from "Business *zakat* payment guideline", by *Shariah* Division of Bank Islam, 2012, p. 14.

In terms of execution, the *zakat* fund is coordinated by the *Shariah* Division and the Corporate Communications Department (Respondent 7 and Respondent 22) and also other business units such as the Cash Management Department (Respondent 12, Respondent 16 and Respondent 19). Therefore, the *Shariah* Division and Corporate Communications Department collaborate in the *zakat* allocation planning and propose the activities to the *Zakat* Committee (Respondent 7 and Respondent 16).

Respondent 17 and Respondent 19 agreed that in determining the *asnaf*, the first consideration is about the authenticity of the *asnaf*: "We are so selective in determining the *asnaf*. We have to make sure about the authenticity of the *asnaf* and so far we do it seriously to avoid complaints from the community and so far *Alhamdulillah* [Thanks to God)]" (Respondent 17). In determining the authenticity of the *asnaf,* several procedures are followed such as: (i) a site visit report form is filled in by the bank's officers; and (ii) third parties verification from the District Officers (Respondent 13, Respondent 19 and Respondent 28). The second consideration is the priority of the project to the *asnaf*:

> For instance, this year we give donation to five mosques for repair and rehabilitation. So, our main consideration is whether the mosque is really needed to be repaired [in bad condition].
>
> (Respondent 16)

Furthermore, the bank establishes a strategic alliance with universities to identify the asnaf (*zakat* contribution to students): "Let universities manage [through the Student Affairs Department]. We give them guidelines in selecting the students and let universities decide the recipients because they know well their students" (Respondent 12). The bank also commits to improving the educational level among the poor students in universities and schools (Respondent 8, Respondent 9 and Respondent 12).

In short, the management of *zakat* at Bank Islam involves two main activities: (i) paying the business *zakat* to the *zakat* authorities; and (ii) distributing the *zakat* refund by conducting CSR initiatives nationwide in accordance with the *Shariah* principles and guidelines to improve Muslims' socio-economic status. The findings show that the bank modifies the form of distributions based on the needs of the recipients to improve their standard of living and to maximize the value of giving. For instance, the *Man Jadda Wajada* program is designed to assist the recipients to start a business by providing them with monetary capital and equipment. The bank also conducts the Home Project as an annual program for the *zakat* fund to enhance the quality of recipients' life (*asnaf*). As such, providing a home (shelter) is a basic need (*daruriyyat*) for the recipients to fulfill the objective of the *Shariah* in the *zakat* management.

6.2.3   CSR Budgeting

CSR budgeting for the bank is prepared and controlled by the Corporate Communications Department (Respondent 1, Respondent 7, Respondent 19, Respondent 22, Respondent 23 and Respondent 28) based on the calendar of events for that particular year. The bank avoids sponsoring any CSR programs that break the *Shariah* laws and guidelines such as fashion shows or concerts (where there is no separation of men and women). For each event, the anticipated cost should be determined to support the justification of the program (Respondent 28). Sometimes, there are applications from other business units such as the Consumer Banking, the BICC and the Automobile unit that also want to conduct the CSR initiatives. In this case, these units should prepare the budget and determine the sources of CSR fund (from the *zakat*, donation fund and so on)

(Respondent 22) and all these proposals with the CSR budgeting should be submitted to the Center of Excellence in the Finance Division to be compiled with other budgets.

After that, all these budgets need to be presented at the budget challenge session (except for proposals to use the *zakat* fund) (Respondent 22 and Respondent 28). The CSR does not affect the bottom line of the bank (Respondent 9, Respondent 23): "*Zakat* has no impact to the bottom line. Then, the budget itself… that is part of the operational expenditure [OPEX] and CAPEX is capital expenditure. OPEX is already budgeted for… so, it is already taking into account the expected profit of the year" (Respondent 9). Furthermore, the bank may plan the CSR activities based on the budget allocation (Respondent 1 and Respondent 22) in the marketing/promotion expenses (Respondent 9 and Respondent 22). In the income statement of the bank, the figure is presented under the category of "other overhead expenses" which is part of the advertisement and publicity expenses (Respondent 23). There are two types of the CSR budgeting: (i) at the corporate level (the budget challenge); and (ii) at the program level (for all CSR programs).

(i)   Corporate level – the budget challenge

For the CSR budgeting, the Corporate Communications Department is responsible for preparing the budget based on the previous activities as well as the future planning and to present it (Respondent 19 and Respondent 28). Later, the budget needs to be presented at the budget challenge session (Respondent 9, Respondent 22, Respondent 23 and Respondent 28). The budget challenge session is a very structured process and it starts with all divisions of the bank preparing the budget itself (Respondent 9 and Respondent 22): "Basically, every division will come out with its own OPEX budget and normally we

conduct this session on November. It will start with revenue and followed by expenses"
(Respondent 9).

The budget challenge session is part of the bank's planning process. Three panelists may
conduct the session, namely, the Chief Financial Officer, the Chief Risk Officer and also
the General Manager of Strategic Planning (Respondent 9). Usually, during the session,
the presenter for the department requesting the budget needs to justify the importance of
the program and the economic value of that proposal (cost over benefits) (Respondent 9,
Respondent 22, Respondent 23 and Respondent 28). For 2012, the bank allocated about
RM850,000 for the CSR activities (Respondent 28). The strong justifications and the
impact of the program will help the budget challenge committee to approve the requested
budget (Respondent 9 and Respondent 28).

(ii)   Program level – for all CSR programs

After completing the budget challenge, the Corporate Communications Department may
have a figure to be established as a donation fund or budgeted CSR fund (one source for
the CSR fund) (Respondent 1). If the approval figure is the same as the proposed figure,
they may conduct the program as planned; otherwise, they have to make adjustments to
their plan (Respondent 9 and Respondent 28). The bank also needs to ensure that the
budget allocation is fairly distributed to all stakeholders of the bank (Respondent 28).
Furthermore, in terms of approval of the CSR program, the bank has certain procedures
regarding authorized limits of the budget (Respondent 9 and Respondent 28). In the
proposal of the CSR program, all supporting documents should be attached together with
the budget for the approval process (Respondent 28).

Thus, this study finds that the bank has a proper CSR budgeting process to conduct the CSR programs. A good CSR budget presentation may help to convince the Budget Challenge Committee to approve a significant amount of funding for such activities. For every CSR program, the CSR budgeting should be included in the project paperwork and this budget is controlled by the CR Department. The CSR budgeting is prepared to enhance the accuracy of cash flow reporting to allocate cash for the CSR initiatives and to allow the management team to get a better understanding of the company's business drivers (Bilson, 2010).

6.3   Role of Accountants in the CSR Management Process

In managing CSR activities, the management accountants and the operational (financial) accountants are involved in several tasks such as: (i) preparing the budget including the overhead expenses (promotion) expenses; (ii) monitoring the distribution of CSR funds (including *zakat* fund and donation fund); (iii) acting as committee members for the budget challenge session; (iv) preparing accounting entries; (v) making disbursements to all CSR-related expenses; (vi) acting as committee member of the *zakat* Committee; (vii) ensuring that all the CSR expenses are spent according to the budget; (viii) determining CSR expenses that are entitled for tax relief; (ix) providing financial data to the Reporting Unit of the Annual Report for CSR activities; (x) ensuring that all business transactions and distribution of CSR fund (especially the *zakat* fund) are in accordance with the *Shariah* principles and guidelines (Respondent 22 and Respondent 23). According to Respondent 19, Respondent 22 and Respondent 23, not all CSR expenses or costs are subjected to tax reduction but depend on the institutions (where the cost has been incurred) that have approved by the Inland Revenue Board.

The bank does not consider tax reduction to be a priority in designing and implementing CSR initiatives (Respondent 19, Respondent 22 and Respondent 23): "Sometimes, we do not consider on the tax exemption… that is not our priority. The most important thing is the activity itself" (Respondent 22). Respondent 23 also agreed that the activity should have a good impact on the bank as well as the community.

Furthermore, as an accountant, he or she may have all the necessary skills and accounting knowledge to help the bank manage its CSR activities wisely, that is, with limited budget but high impact (Respondent 22, Respondent 23 and Respondent 28). From the above findings, this study documents that the accountants (management or financial) have a critical role in determining the allocation budget for the CSR activities. This is because they are part of the committee in the budget challenge session. The accountant may convince the management team that CSR is a good long-term investment ("CSR is key to survival in tough times.," 2008; Davis, 1967) for the business sustainability and part of marketing tools to promote the bank's products and services. During the budget challenge session, the accountants may support proactively all the CSR programs that can offer high impacts to the business performance. Among the objectives of the budget challenge procedure is to determine the cost versus benefits for every single cent that the bank spends on CSR activities.

Therefore, the roles of accountants in the CSR process should be shifted from focusing more on social and environmental reporting to assisting the management team in the CSR decision-making by providing accounting (figure data) to support these initiatives (Tilt, 2009) and using their soft skills like influencing skills to help management to make better decisions ("Post-Dubai, whither Islamic finance?," 2010). Hence, this study finds the

issue of CSR should be exposed to business and accounting students and integrated in the final year undergraduate module as a means to prepare them with an understanding of the role of accountants and their profession in the development of CSR and CSR practices (Holland, 2004) particularly in determining the allocation budget for the CSR activities.

6.4   *Shariah* Compliance in CSR Engagements

Respondent 1, Respondent 9, Respondent 16, Respondent 19, Respondent 22, Respondent 23 and Respondent 28 affirmed that, in designing and implementing CSR initiatives, the bank must follow all *Shariah* principles and guidelines such as the *Shariah* Governance Framework of Bank Negara Malaysia and the *Shariah* audit to ensure the *Shariah* compliance.

> So, we have three departments, the *Shariah* Review, then the *Shariah* Advisory and Research and the *Sharia*h Compliance Risk Management. These departments are established to comply with the *Shariah* Governance Framework of Bank Negara. But for the audit, the *Shariah* audit is under the internal audit, because we adopt three level of defense to ensure the *Shariah* compliance.
>
> (Respondent 16)

In general, several related parties should be referred to, such as the *Shariah* Supervisory Council, the *Shariah* Review Committee, the *Zakat* Committee and also the *Shariah* Division to assist in confirming compliance with all the *Shariah* principles and guidelines. Internal guidelines such as the Business *Zakat* Payment Guideline should be examined carefully to ensure all the CSR initiatives using the *zakat* fund have been properly managed and distributed in accordance with the *Shariah* principles. This view was expressed by Respondent 28: "*Shariah*-compliance must be jointly emphasized in Islamic CR [CSR] initiatives".

Moreover, in ensuring the *Shariah* compliance of the bank, three additional efforts have been initiated: (i) establish the *Shariah* Compliance and Control Department under the *Shariah* Division to assess, monitor, report and control risk on the *Shariah* non-compliance, (ii) introduce the *Shariah* audit which is under responsibility of the Internal Audit Division; and (iii) implement the *Shariah* risk management/mapping (Respondent 8, Respondent 16, Respondent 22 and Bank Islam Annual Report 2011). Respondent 16 also explained that the *Shariah* officers may have regular meetings with managers to discuss any *Shariah* non-compliance matters during the *Shariah* audit and *Shariah* review for better improvement. If there is any income that breaches the *Shariah* principles, the bank may recognize it as non-*halal* income and some of it may be channeled to the CSR fund (Respondent 16 and Respondent 22) for *maslahah ammah.*

Furthermore, the bank tries to inculcate the concept of *Tawhid* and *Taqwa* to be practiced by all staff in conducting their daily tasks (Respondent 8). For instance: (i) disclose all information in the process of getting approval for the CSR projects; (ii) understand all the *Shariah* principles in all business transactions to avoid breaching the *Shariah* rules; (iii) demonstrate sincerity and transparency in reporting and disclosure (e.g. report and disclose mistakes, if any); and (iv) perform the allocated task prudently. Thus, the introduction of the concept to the staff of the bank may encourage them to perform an excellent job with full knowledge and commitment as well as to be responsible and accountable for all their deeds and actions.

Further, all of staff's actions and decisions are subject to Allah's will and should be considered as part of worship (*ibadah*) to achieve *barakah* and *al-falah*. As suggested by Haniffa and Hudaib (2002), a Muslim employee who follows the teachings of Islam should consider his/her economic work as a means to attain Allah's blessing and should take full responsibility and accountability for the tasks given, not only to the employer but ultimately for Allah.

6.5   Managing CSR Initiatives

Basically, the CSR initiatives of the bank are managed by the CR Department (a sub-department under Corporate Communications). The Communication Communications Department consists of another two main departments, namely, the Corporate Public Relations and Corporate Branding Departments. The CR Department was established in 2008 with two designated staff to initiate and coordinate all the CSR activities of the bank (Respondent 1). In conducting the CSR events, the department gets the full support and collaboration from other business units such as the Consumer Banking, Operations, Business Support, Financial Department, Human Resources, *Shariah* Division as well as all branches of the bank and its regional offices.

In addition, the bank also involves third parties such as government agencies, local authorities, statutory bodies, schools and local communities in planning, implementing and monitoring the CSR activities and events. On top of that, the bank needs sufficient CSR funds to conduct more CSR practices for the benefits of beneficiaries, other stakeholders and also the business.

6.5.1 Identifying Stakeholders

Bank Islam acknowledges the importance of managing stakeholders and their issues. In managing the stakeholders, the bank may examine carefully all stakeholders (internal and external stakeholders) because they are important to the bank (Respondent 28):

> At Bank Islam, we believe that one of the ways to build better reputation of the bank is through the efficient sustainable management of stakeholders. This will help the bank to preserve market positions, margins and organizational vitality. A corporate reputation is a broad entity that enables a bank to establish a relationship with their stakeholders and encompasses the full range of attributes associated with the underlying products and service experience.
>
> (Respondent 9)

The internal stakeholders mentioned by the respondents include employees, customers/depositors as well as shareholders. External stakeholders include the government, schools, universities, government agencies, regulatory bodies, potential investors and communities. Normally, the shareholders and depositors want a high return on their investments or deposits but, on the other hand, the loan makers want a low rate of financing to minimize their obligation in paying back the loan (Respondent 16). The bank manages these various stakeholders' issues by mutual discussion and consensus with all stakeholders (Respondent 8, Respondent 9, Respondent 16 and Respondent 28):

> At Bank Islam… the shareholders support the program [CSR]. There is no resistance from the shareholders… and there is no conflict of interest. It because they are in the same line with us… is something that the shareholders expect you to do.
>
> (Respondent 9)

Furthermore, the depositors or individual consumers of the bank are among the largest group of stakeholders as compared to the corporate consumers (Respondent 17). The bank is committed to improving continuously its services and products to the best benefits of its customers. Interestingly, in one of the tag lines in the 2011 Annual Report,

the bank stresses that "Cultivating a customer-centric philosophy: Understanding the diverse needs of its vast customer base, Bank Islam provides comprehensive and innovative solutions" (p. 156). For instance, the bank offers micro-financing via *Ar-Rahnu* business which provides credit facilities for traders and the small business community to support their financial needs.

In addition, the bank tries to build and maintain a good relationship with customers through establishment of the Customer Satisfaction Index to assess the satisfaction level of the customers regarding the products and services of the bank (Respondent 8 and Respondent 12). The index was launched in April 2007 as part of the rebranding program to retain and attract more customers to the bank (Omar, 2007). The bank's customers are also invited to be involved in and support in the CSR programs (Respondent 1). For instance, for the Home Project at Pokok Sena, the bank opens the tender to its local contractors (who are also the customers of the bank) to submit their quotation or proposal (Respondent 1).

According to Respondent 1, the bank aims to inculcate the CSR culture among its stakeholders as well as to maintain their support of the bank: "We have CR [CSR] project with our internal clients. Now we are joined together to conduct a CR [CSR] project at their local community". In addition, the bank puts a priority on dealing with customers' complaints and set up a unit to manage the complaints fairly and politely (Respondent 24 and Respondent 25). Furthermore, if customers have a complaint towards the bank's staff, they can fill in a complaint form and forward the case directly to the Bank Negara (Respondent 6).

Furthermore, the employees' welfare and benefits at the bank are taken care of by the Human Resources Department and the *Kelab Kebajikan Bank Islam* (Respondent 1, Respondent 19 and Respondent 28). The bank recognizes the importance of its employees in driving the success of the business by providing training and learning opportunities as well as career progression so that the employees are able to acquire knowledge and skills for their own benefits. These efforts are central to the strategies of the Human Resources Department to build up the employees' core competencies, management, performance management and system enhancement (Bank Islam Annual Report 2011). Furthermore, according to Bank Islam Annual Report 2011, the bank allocated about RM7.16 million in training and development of staff through 48 in-house and 270 external training programs which covered soft and functional skills of 752 staff, with the overall purpose to inculcate high performance work culture.

The bank also develops current and future leaders to execute the bank's business strategy in the most efficient and effective manner by organizing some structured leadership programs such as the Succession Planning Program, the Talent Management Program, the "Senior Leadership Strategy Workshop: Performance-Driven Leadership" (Bank Islam Annual Report 2009, 2010, 2011 and 2012). The bank also introduced the Young Leaders Program and the Financial Sector Talent Enrichment Program to attract and equip talented graduates with a strong foundation in the *Shariah*-based finance and then offering them a suitable career path (Bank Islam Annual Report 2011 and 2012).

From the findings, this study suggests that the bank gives fair consideration to all its stakeholders such as customers and employees to sustain their support and commitments to the bank. For the discussion, the stakeholders and their issues are explained based on

three level of *maslahah* (*dharuriyyat, hajiyyat* and *tahsiniyyat)*. For example, training and career development is considered *hajiyyat* (complementary) to help the employees to enhance their skills and knowledge for future benefits. Further discussion in managing stakeholders and their issues is provided in Chapter 7.

6.5.2 Determining Eligible Beneficiaries

In determining the eligible beneficiaries of the CSR program, the bank has specific and standard procedures to ensure the transparency of the process such as surveys, site visits, interviews and third-party authentication (Respondent 1, Respondent 6, Respondent 7, Respondent 13, Respondent 16, Respondent 19 and Respondent 28). All of these procedures are conducted by the CR Department staff and also the members of the committee for the purpose of evaluation and authentication of genuineness of the potential recipients (Respondent 1, Respondent 6, Respondent 7, Respondent 13, Respondent 19 and Respondent 28). When the stakeholders and their problems have been identified, it is easy to plan the CSR initiatives (Respondent 6, Respondent 7 and Respondent 9). The bank is committed to find the solution to the stakeholders' problems and issues by conducting more CSR initiatives (Respondent 6).

Interestingly, Respondent 1, Respondent 6, Respondent 7, Respondent 12, Respondent 17 and Respondent 28 claimed that the bank prefers to conduct the initiatives with its customers to appreciate their support and commitments and to know them well. When the bank knows their stakeholders better, it is easy to choose the right recipients of the CSR events (Respondent 1, Respondent 17 and Respondent 19) because the bank has several sources of the CSR fund to be used such as the *zakat* fund and donation fund (Respondent 1 and Respondent 7). This view was shared by Respondent 1 who explained that the type

of recipients may determine the source of the CSR fund: "Most of our community projects involve *asnaf* who eligible to receive the *zakat*. If they are non-Muslims [Chinese or Indian], then we need to use other funds like donations" (Respondent 1). The main target group of beneficiaries in the community is the poor (Respondent 19). Furthermore, the bank tries to conduct CSR events all over the nation, ensuring a wide coverage of recipients (Respondent 8, Respondent 19 and Respondent 19).

By conducting the CSR initiatives, the bank establishes close relationships with the community (Respondent 6, Respondent 7 and Respondent 16): "From the CSR activities, we do not just have a relationship with the recipients, but we also build a relationship with the JKM. From that activity [the Home Project]… there are involvements from the government agencies and the local communities" (Respondent 7).

In selecting the beneficiaries (in the case of applications received through letters), all applications go through the same procedures regardless of who proposed the case. This condition is applied to ensure fair treatment to all applications and to avoid conflicts of interest (Respondent 6, Respondent 9, Respondent 12, Respondent 13, Respondent 17, Respondent 19 and Respondent 28). The nomination of the recipients is derived from various sources such as from the members of the bank (staff), other organizations such as government (federal or state) agencies, schools, statutory bodies, NGOs, private organizations, the media, and also local communities through *Imam* and *Ketua Kampong* (Village Heads) (Respondent 1, Respondent 6, Respondent 7, Respondent 12, Respondent 13, Respondent 19 and Respondent 28).

This point was explained by Respondent 19 as follows: "Normally, they will provide a list of potential recipients and we will decide. For instance, *Jabatan Kebajikan Masyarakat* [JKM] will show the location and introduce them to us". Respondent 28 also explained: "We decide based on the needs and recommendations… as much as we can help them out, we'll try our best" (Respondent 28). Normally, these parties have more information on the background of the potential recipients and therefore, the bank establishes a good relationship with them in designing the CSR initiatives (Respondent 1, Respondent 13 and Respondent 19).

6.5.3   Designing CSR Initiatives

According to Respondent 28, the CR Department of Bank Islam prepares a calendar of events for one year's CSR activities according to the four pillars. The allocated budget and the number of activities from one pillar to another may vary from year to year (rotation of the program) (Respondent 28). However, the continuity of such programs is important for the benefits of the bank (image building) (Respondent 7 and Respondent 15). On top of that, the bank expects each regional office to conduct at least one CSR activity (large event) per year and the branches of the bank may initiate more CSR activities with the local community (Respondent 7).

Since the bank operates in all states in Malaysia, the rotation of the states is important for fairness (Respondent 1, Respondent 6, Respondent 15, Respondent 19 and Respondent 28). For instance, the Home Projects of Bank Islam have been conducted in Kelantan, Terengganu and Kedah, to be followed by other states in the near future (Respondent 1, Respondent 8, Respondent 15 and Respondent 19). The selection of these states was based on the poverty rate (statistical data): "We started with Kelantan, Terengganu…

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based on statistics. Then, followed by Kedah and last year we had the project at Pahang. *Insya Allah*, this year we will go to Perak" (Respondent 19).

Successful CSR planning should be translated into commitments, expectations and guiding principles in concrete CSR programs and actions. At Bank Islam, paperwork (a proposal paper which consists of the details of the program including the budget and so on) needs to be prepared for each CSR program (Respondent 19). The program is designed carefully because it involves the *zakat* money and the selection of the beneficiaries *(asnaf)* needs to be examined precisely (Respondent 1, Respondent 6, Respondent 7 and Respondent 12). Nowadays, Bank Islam is very creative in designing the CSR initiatives and a lot of improvements have been made in the approaches, the management process of the program as well as the program itself (Respondent 1 and Respondent 28): "The public are looking forward to the improvement of the CSR programs because we are in the new age and we have to compete with other banks within the same industry. We have to be more creative" (Respondent 28). Furthermore, the bank employs a niche strategy (setting priorities) in planning its CSR initiatives (with more focus on community welfare) such as providing homes to the older generation, caring for the sick, the homeless and the poor and needy, and supporting education (Respondent 1, Respondent 16 and Respondent 28).

In addition, the bank must properly design and plan the CSR activities to comply with all the *Shariah* guidelines and principles as well as the CSR policies in order to fulfill the demand of various stakeholders (Respondent 1, Respondent 6, Respondent 7, Respondent 12, Respondent 19 and Respondent 28). Respondent 9 mentioned further that: "The bank avoids or prohibits certain activities that have an adverse impact to the society or

community that we serve". The bank also avoids sponsoring activities that have a negative impact on the image of the bank, such as sponsoring the Islamic fashion show (Respondent 1) and the New Year celebration (Respondent 16). Respondent 28 expressed the same point: "We avoid sponsoring any programs which have elements of the non-*Shariah* compliance because if I want to join any CSR program with others [NGO or media]… I have to evaluate prudently and we bring along the image of Islamic bank".

Bank Islam has established a strategic alliance with third parties such as the government agencies, state governments, private companies (hotels), statutory bodies such as universities and colleges, schools, local communities, NGOs, local media operators and other corporate organizations in the CSR program planning (Respondent 1, Respondent 12, Respondent 19 and Respondent 28). The Corporate Communications Department also gets strong cooperation from the staff in various departments, branches as well as the *Kelab Kebajikan Bank Islam* to help them in managing the CSR programs. The bank tries to localize the activities by hiring local contractors, caterers, suppliers and inviting local communities to attend the event (Respondent 1). The purpose of having such collaboration and cooperation is to utilize their expertise, minimize the conflicts of interest and to support the lack of available internal resources in managing the CSR initiatives (Respondent 1, Respondent 6, Respondent 7, Respondent 12, Respondent 19, Respondent 24 and Respondent 28).

For instance, the bank has a strategic collaboration with local universities such as the University Malaysia Kelantan (UMK) and University Teknologi MARA (UiTM) to conduct various CSR programs. Specifically, in 2012, the bank collaborated with the UMK to launch the University Debit Card-i (multipurpose card) in response to the move

towards a cashless society (Bank Islam Annual Report 2012). To UiTM, the bank offers the Bank Islam Alumni-UiTM Platinum MasterCard to the university's alumni and staff to collect money for its *"Mengubah Destini Anak Bangsa"* (Fund to Change the Destiny of the Nation's Youth) (Respondent 1 and Respondent 19). Through this program, it may encourage the thousands of UiTM alumni members to give back to the society because, for every purchase using the card, 0.3% of RM1.00 used will be donated to the fund. In addition, the bank also allocated about RM200,000 of the *zakat* to *Mengubah Destini Anak Bangsa* in 2011 (Bank Islam Annual Report 2011). The objectives of the program are to help young people from the poor families (at least 5,000 students per semester) to pursue their studies at UiTM in the pre-diploma program and then further to the diploma level.

The bank also conducts a series of CSR programs with media operators such as the Astro and the Media Prima through television programs like the *Imam Muda* Season 2 and the *Ustazah Pilihan* with villagers, senior citizens and orphans all over the country (Respondent 9, Respondent 16, Respondent 19, Respondent 28 and Bank Islam Annual Report 2011 and 2012). This strategic collaboration may help the bank to promote the brand of the bank as well as to provide financial support to the media operators to run the programs (Respondent 28). Another example of the strategic collaboration is the "Reach Out Program" through which the bank commits to provide food and necessary items to the homeless for one year. This is a collaboration program with Reach Out Malaysia and the staff of the bank also participate in distributing these items to the homeless in Kuala Lumpur and the Bus Stand Klang together with the Reach Out volunteers (Respondent 19, Respondent 28 and Bank Islam Annual Report 2011).

Normally, the bank sets up an ad-hoc committee (different committees for different programs) to manage the CSR event (Respondent 1, Respondent 7, Respondent 13 and Respondent 17: "Every time we have an event [CSR event]… we form an ad-hoc committee and normally the nearest branch will lead the project" (Respondent 1). Basically, the members of that committee may comprise staff from the CR Department, staff from other departments, regional state managers, home branch(es), the branch manager, *Kelab Kebajikan Bank Islam,* government agencies, contractors (if any), and also representative of local community (Respondent 1, Respondent 7, Respondent 13, Respondent 17, Respondent 19 and Respondent 24). The members of that committee may vary from one program to another depending on the type and size of the event (such as who will attend the event, time period, location, budget and so on) (Respondent 1, Respondent 7, Respondent 17 and Respondent 19).

The involvement of these parties increases the available resources and minimizes any difficulties in managing the project (Respondent 7 and Respondent 17). Coordination among the members in the committee (the CR Department in Kuala Lumpur and the state committee) needs to be done through email, phone and regular meetings in that particular location (venue of the event) (Respondent 1, Respondent 17 and Respondent 19). This collaboration is important to ensure the implementation process runs smoothly.

Moreover, Respondent 17 claimed that nowadays people are looking forward to how the CSR programs have been designed and the contents of the program. Hence, the CR Department invites all parties (from inside and outside the organization) to propose the CSR program and some of the CSR proposals are forwarded by: (i) other departments like the Cash Management, the Consumer and the *Shariah* Division (Respondent 12 and

Respondent 16); (ii) individual staff of the bank (staff are encouraged to propose the CSR program); (iii) members of the public through application letter or donation and sponsorship form; (iv) Bank Negara (*Program Wang Saku Bank Negara*); and (v) Khazanah Nasional Berhad (PINTAR program). However, the selection of the CSR programs is decided by the top management as well as other parties such as the CR Department, the *Zakat* Committee and the *Shariah* Division based on their authority and the scope of the tasks (Respondent 6, Respondent 7, Respondent 12, Respondent 19 and Respondent 28).

Overall, in designing the CSR initiatives, the bank needs to ensure that all CSR activities are in accordance with the *Shariah* principles to achieve the *maqasid Shariah* for *maslahah ammah.* Thus, all of the activities that have been planned should be implemented successfully.

6.5.4 Implementing CSR Initiatives

Ideally, the success of CSR implementation needs full support from all parties in the organization and outside the organization. It involves the commitments from the top management to approve the budget and the activities, the employees who conduct the activities, and the recipients of the CSR initiatives. At Bank Islam, the CSR culture moves in a two-way direction: from the highest to the bottom (from top management to the staff) and from the bottom to the up. Most of the staff are willing to be involved in the CSR initiatives: "This corporate value is exemplified by its employees who have worked tirelessly in carrying out the Bank's many Corporate Responsibility activities and initiatives which aim at bringing about positive differences to the community and environment" (Bank Islam Annual Report 2011, p. 88).

This view was expressed by several respondents like Respondent 1, Respondent 8, Respondent 9, Respondent 12, Respondent 13, Respondent 19 and Respondent 23. Respondent 1 mentioned that: "During the implementation of the program… there are always helping hands, so, not to worry" (Respondent 1). The committee gets full support and cooperation from the regional managers and the nearest (home) branches to manage such initiatives (Respondent 1, Respondent 7, Respondent 13, Respondent 17, Respondent 19 and Respondent 28).

Furthermore, the bank has to ensure that the programs are implemented according to the time frame and that the collaboration among departments involved is coordinated effectively (Respondent 1, Respondent 7, Respondent 15, Respondent 19 and Respondent 28). For instance, the Home Project 2010 at Kampung Mata Ayer, Pokok Sena, Kedah, the project (a house) was completed within 15 days: "Within two weeks… complete everything. On the 15th day, the house has been fully furnished" (Respondent 3). On top of that, the program should: (i) be conducted in a proper way as per the *Shariah* and in the moderation mode (*wasatiyyah*) and with minimal waste (Quran 7:31); (ii) avoid involvement in prohibited matters (alcohol, drugs and gambling); and (iii) provide greater impacts on the beneficiaries (*asnaf*) or the society to improve their quality of life. In addition, all of these initiatives should be evaluated and monitored to improve the effectiveness of the program to the beneficiaries.

6.5.5 Evaluating and Monitoring CSR Initiatives

The purpose of evaluating and monitoring such practices is to ensure that all the *Shariah* guidelines and principles have been followed and that the bank's objectives are not contradicted (Respondent 1, Respondent 8, Respondent 9, Respondent 16, Respondent 19, Respondent 22 and Respondent 28). Monitoring the CSR initiatives will be based on measuring, verifying and reporting. According to Maon *et al.* (2009), the objectives of evaluation are to: (1) determine what works well and why, and how to ensure it will be sustained; (2) investigate what is not working well and why and how to avoid it; (3) explore barriers to success and ways to overcome them; and (4) revise original goals or create a new goal if necessary. Alternatively, the *Shariah* audit should be conducted to provide independent assessment and objective assurance to improve on the *Shariah* compliance (Bank Negara Malaysia, 2010) in the CSR practices. Islam also encourages the Islamic organizations to engage in continuous improvement through the evaluation process (Dusuki & Abdullah, 2007a) in a formal system such as performance appraisals to evaluate individuals' job performance (Sadeq, 2001) in the CSR activities. The organization can consult and discuss with external CSR consultants to get their views for improvement and also formulating a clear performance metrics or KPI for each event (McElhaney, 2009).

Furthermore, communication is a means to gain stakeholders' comments and suggestions. The stakeholders are encouraged to be actively involved in the CSR practices by volunteering to participate or by giving feedback for long-term value creation (Respondent 1, Respondent 6 and Respondent 9). The feedback from the stakeholders is important to improve the quality of customer service and to fulfill customers'

expectations. Feedback can be given through the bank's branches, telephone, postal mail, faxes, email or downloading the Customer Feedback Form that is available on the bank's website and also available at all its branches:

> The bank has always been committed towards undertaking responsible corporate practices that empower its stakeholders, especially the communities we operate in and which promote the development of Islamic banking. We concern about our stakeholder and therefore we welcome the feedback given by them through questionnaires, telephone or other channels. From there we will see what are the things needed by our stakeholder and we will try to accommodate it.
>
> (Respondent 9)

This process may help the bank to gain a better understanding of the current CSR issues and identify the new CSR issues. Moreover, the feedback from the recipients of the CSR initiatives is also important to measure and evaluate the effectiveness of the program: "When we get the feedback from the recipients or the local society about the programs… and maybe we will improve that process in the future programs" (Respondent 6).

The findings suggest that all the respondents, especially the beneficiaries, in this study concluded that the bank should continue and more proactively conduct CSR initiatives to develop the local community as well as to improve the educational level in Malaysia. Some of the respondents (Respondent 10, Respondent 11 and Respondent 14) also suggested a few improvements in planning and implementing the CSR programs. Ongoing stakeholder dialogue and collaboration with the key stakeholders are believed to improve the effectiveness of CSR engagement (Maon *et al.*, 2009). All of the beneficiaries support the CSR engagement of the bank and perceive that these efforts are effective for improving the wellbeing of the society (Respondent 26).

6.5.6 Assessing Current Practices

The bank should assess the current practices of the CSR activities before planning the future CSR programs: "Next year… if we look the project [CSR initiative] is not so good [less impact]… it's ok. Next year, we change the approach. We try to do it in the best way" (Respondent 1). This assessment can be done by conducting the post-mortem meeting of the previous CSR programs or benchmarking the current CSR practices.

6.5.7 Measuring CSR

Measuring is an additional step that was highlighted by three respondents (Respondent 1, Respondent 9 and Respondent 22). The issue of measurement needs to be addressed in managing the CSR initiatives, as measuring the CSR impact is a very challenging and difficult task (Respondent 1, Respondent 9, Respondent 19 and Respondent 22): "It is very hard to measure… because there are a few methods in measuring brand value. It is not accounted by ringgit and cents" (Respondent 9). Respondent 1 also shared this view as follow: "The only thing is to be improved... to measure the CSR programs. That is what we are planning to do which I am getting help to do the job".

Furthermore, Respondent 1, Respondent 9, Respondent 19 and Respondent 28 also claimed that the impacts of the CSR programs may be occur in slow motion and emerge over a long period of time.

6.6   Three Selected CSR Initiatives

For the purpose of this study, three structured programs of the CSR initiative are selected to discuss in detail, namely: (i) *"Projek Bantuan Rumah":* Kedah; (ii) PINTAR program; and (iii) *zakat* contributions. All of these projects are also intensively focused upon in the Bank Islam Annual Report 2010 towards enrichment of the communities in which the bank operates.

6.6.1   "Projek Bantuan Rumah": Kedah

The Home Project of Bank Islam is considered a yearly program or a structured program in distributing the *zakat* allocation fund (Respondent 1, Respondent 7 and Respondent 15). The program covers renovating, building and re-building of homes for the marginalized people particularly senior citizens and the handicapped. During his speech at the Masjid An-Nur, Pokok Sena (handover ceremony of the Home Project 2010) on 4 September 2010, Bank Islam Managing Director Dato' Sri Zukri Samat claimed that the objectives of this project are to develop universal Muslim community and to improve the public confidence in the bank. In 2007 and 2008, the bank conducted Home Projects at Kelantan and Terengganu and, for 2010, the project was conducted at Kedah which incurred a total *zakat* fund of RM751,500 (Respondent 1, Respondent 8, Respondent 15, Respondent 19 and Bank Islam Annual Report 2010).

These states are among the poorest states in Malaysia: "We go to the poorest state – Kelantan, Terengganu and Kedah. Then, the next is Sabah" (Respondent 8). Since 2008, the bank has built 128 homes for individuals and families in need (36 in Kelantan, 37 in Terengganu, 31 in Kedah and 23 in Pahang), amounting to nearly RM4 million for this project (Bank Islam Annual Report 2012). According to Respondent 8, previously, the

bank collaborated with PROKHAS for rehabilitating the homes of the poor and needy. PROKHAS is a special project by the government to help such people to have their own houses. Table 6.3 summarizes the home projects conducted to date by Bank Islam.

Table 6.3
Previous Home Projects of Bank Islam

Kelantan	Terengganu	PROKHAS
▪ Provide money to state government (RM30,000 per house). ▪ Let state government officers select the recipients. ▪ Conditions: recipients must have their own land, if not, the government may provide the land. (Respondent 8)	▪ The state government provides a piece of land to develop low-cost houses. ▪ Some portions of the land have been given to Bank Islam to the home project. ▪ Develops two blocks of houses (33 units). ▪ Those houses will be managed by the state religious council. ▪ The council will identify the eligible recipients. (Respondent 8)	▪ Government provides money to PROKHAS to be distributed to the poor for repairing their houses. ▪ PROKHAS appoints Bank Islam to identify the recipients of the fund because the bank exists everywhere in Malaysia. ▪ This project closed in 2011. (Respondent 8)
▪ The state government will select the recipients on behalf of the bank (Respondent 7)	▪ The state government will select the recipients on behalf of the bank (Respondent 7)	

6.6.1.1   Pre-determined fund for the Home Project

Normally, for the home projects, there are two types of houses: (i) renovations; and (ii) new homes (Respondent 1, Respondent 6 and Respondent 15). Respondent 1 stated that, for each year, the bank allocates a fund amounting to RM1 million for 50 homes (building and renovating homes) for poor and underprivileged Malaysians (Respondent 1 and Respondent 17): "We have a fund of RM1 million a year and we target about 50 homes [combination of building and renovating]" (Respondent 1). In 2011, the bank allocated about RM800,000 for 40 households which involved renovating and re-building

of the houses (Bank Islam Annual Report 2011). In 2010, the Home Project was conducted in Kedah. Several districts in Kedah were selected, namely: Pokok Sena, Kulim, Baling, Yan, Kuala Nerang and Sik (Bank Islam Annual Report 2011). According to Respondent 7, the bank selected these districts because of the geographical area (not very well developed) and the socio-economic level is still low as compared to other districts like Alor Setar and Sungai Petani.

6.6.1.2 Home Project – Pokok Sena

The Home Project of Pokok Sena is one of the CSR programs at Bank Islam and the bank allocated funds to build three new houses at Kampung Kuala Pai, Kampung Mata Ayer and Kampung Naka. These three houses are occupied by three families (individual beneficiaries): (i) a couple of senior citizens who have a medical problem; (ii) a couple of senior citizens who have a disabled son; (iii) a large family.

<u>Establishing an ad-hoc committee</u>

After the Corporate Communications Department determined the location (state and district) as well as the allocation budget of the year to manage the project, a committee (ad-hoc committee) was set up which may comprise staff from the CR Department, the Head of Regional Office, the Regional Consumer Business Manager, two local branch managers (Pokok Sena and Alor Setar), the staff of Pokok Sena Branch, the JKM of Padang Terap, the Pokok Sena District Office and the designated contractors (Respondent 1, Respondent 6 and Respondent 7).

Identifying the potential recipients

In selecting the recipients of the houses, the bank considered the recommendations from several channels such as: (i) the Corporate Communications Department; (ii) the local branch manager at Pokok Sena (ii) the government agencies like JKM; (iii) the state government agencies (the *Majlis Agama Islam Negeri Kedah* and the District Office of Pokok Sena); and (iv) the local community (*Imam, Ketua Kampong* (Village Head)). Each of the cases (potential beneficiary cases) was studied carefully to assess authenticity in need. Most of the beneficiaries were working as rubber tappers, factory workers or did not have permanent jobs and received only RM200 to RM500 per month to support their life (Bank Islam 2011 Annual Report).

Assessing the authenticity of the potential recipients

Several procedures were conducted by the committee, including site visits and third-party verification (Respondent 1, Respondent 3, Respondent 5, Respondent 6, Respondent 7 and Respondent 17) to verify the authenticity of the recipients. During the site visits, the potential recipients were interviewed to learn about their background, gain their consent to give a full cooperation during the construction period, and confirm the status of the land on which to build the house (Respondent 1, Respondent 2, Respondent 3, Respondent 6 and Respondent 17). Furthermore, the photographs of the old house were taken as evidence and as part of the documentation process (Respondent 3, Respondent 5, Respondent 6 and Respondent 17).

Normally, the officers who run the site visit need to fill in the site visit form (one type of report that needs to be attached to the project's proposal). Another reason for conducting the site visit is to examine the condition of the old house for the decision on the form of contribution (i.e. whether to repair or to build a new house) (Respondent 1, Respondent 6 and Respondent 7). According to Respondent 2, her old house was being donated by the villagers but had not been completed for some time. Furthermore, Respondent 3 and Respondent 4 also mentioned that, a few years ago, they had already received (application-based) a small house for their disabled son from Bank Islam but no application has been submitted to the bank for this new house (they were nominated by the villagers).

Basically, the houses of these three beneficiaries were in very bad condition and it was not suitable for the elderly to live there (in this case, Respondent 2 and Respondent 3 have asthmatic problems) (Respondent 1, Respondent 2, Respondent 3 and Bank Islam Annual Report 2010).

> The conditions of their existing homes were heart-rending. Several were termite invested and failing to pieces when staff visited. Many were just shacks without rooms or toilets and badly damaged roofs and walls, yet still resorted to as a source of shelter
>
> (Bank Islam Annual Report 2010, p. 158)

Another procedure that needs to be conducted is third-party verification. This procedure aims to verify the originality of the case and to avoid the conflicts of interest (Respondent 4, Respondent 5, Respondent 6 and Respondent 17). Usually, the bank gets the endorsement from the *Imam, Ketua Kampong* (Village Head)*,* neighborhood, the District Office and also the JKM (Respondent 4, Respondent 5 and Respondent 6).

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Preparing a proposal for the *Zakat* Committee approval

After the documentation is done, the CR Department will prepare a proposal (including the site visit form, the proposed budget and the details of the project) to be submitted to the *Zakat* Committee for the approval process (Respondent 6 and Respondent 19).

Hiring a contractor(s)

After the approval of the project, the contractors need to be assigned and the bank gives priority to the contractors who are also the customers of the bank (Respondent 1, Respondent 6, Respondent 7 and Respondent 19). The reasons for such practice are: (i) to build and maintain a good relationship with the customers; (ii) the bank knows the status of the contractors (i.e. whether or not they enough financial sources); (iii) there is a lack of time to find outside contractors (target to hand over the houses before *Aidilfitri* 2010); (iv) the contractors have a good record in their services, experience and workmanship (based on profile of the company, especially their involvement in the government projects); (v) the bank needs three contractors for the three houses; and (vi) to inculcate the culture of CSR among the bank's stakeholders (Respondent 1, Respondent 6, Respondent 7 and Respondent 19).

After several contractors in Pokok Sena were shortlisted, they were invited to attend the interview session and the layout of the houses and the budget figures were discussed (Respondent 1, Respondent 6 and Respondent 7). Then, the bank appointed three local contractors to handle the project based on their quotations and commitments (to finish the project within one month) (Respondent 1, Respondent 6 and Respondent 7).

The project was done in a very short period of time (less than one month) due to the cooperation and commitment of the contractors, the staff of the local branch, the staff of JKM as well as the recipients of the houses (Respondent 2, Respondent 3, Respondent 4, Respondent 5, Respondent 6 and Respondent 7). The duration of the project covered the period from selection of the recipients, construction and also preparation to hand-over the houses. During construction, the contractors hired about 10 workers in a project (at Kampung Mata Ayer, Pokok Sena) and they worked from 8.00 am to 6.00 pm every day to ensure the project was completed within the time frame (Respondent 3 and Respondent 4). The cost incurred for a house amounted to RM30,000 (the amount paid to the contractor) but the bank believes the actual cost is more than that (Respondent 1 and Respondent 7). According to Respondent 1, the contractors also wanted to contribute in the programs and they did not claim for the extra cost. Moreover, the bank pays the contractors based on the progressive list (Respondent 7).

Furthermore, the Corporate Communications Department received full support and involvement from the staff of Pokok Sena branch especially in the process of selecting the recipients, the selection of the contactors, monitoring the progress of the project, reporting the progress to the department, preparing the houses in an attractive setting and organizing the hand-over ceremony (Respondent 5, Respondent 6 and Respondent 7). Good communication and coordination between the Corporate Communications Department and the local branch enabled the project to be done on schedule and successfully (Respondent 1, Respondent 6 and Respondent 7).

The bank provides the homes with two bedrooms, living room, kitchen and toilet and also basic facilities such as water and electricity (Respondent 4 and Respondent 6). The houses are also fully equipped with furniture (for the living room and bedrooms) as well as the home appliances (cooking and dishware set) (Respondent 3 and Respondent 4).

Monitoring and controlling

During the construction period, the staff of the bank and also the staff of JKM came to monitor and report the progress for every 2 to 3 days to the Pokok Sena Branch Manager (Respondent 2, Respondent 6 and Respondent 7). After that, the manager reported the progress to the CR Department as well as to the Head of the Regional Manager and the Regional Consumer Business Manager (Respondent 1, Respondent 6 and Respondent 7).

Giving the homes to the recipients

The bank organized a ceremony to hand-over the houses on 4 September 2010 at Masjid An-Nur, Pokok Sena. The event was attended by Dato' Seri Jamil Khir bin Baharom (Minister in the Prime Minister's Department), Dato' Sri Zukri Samat (Managing Director of Bank Islam), the Pokok Sena Member of the Parliament and also representatives of the government agencies, state government officers, local authorities, NGOs, media as well as local community. The key to the houses and some money were handed to the recipients at the event (Respondent 2, Respondent 3 and Respondent 7). In sum, the process of managing the home project is illustrated in Figure 6.2.

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│  Pre-determine the details │
│  of home project (location │
│  and budget allocation)    │
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            │
            ▼
┌─────────────────────────┐
│  Establishing an ad-hoc  │
│  committee               │
└─────────────────────────┘
            │
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┌─────────────────────────┐
│  Identifying the potential of │
│  recipients              │
└─────────────────────────┘
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┌─────────────────────────┐
│  Assessing the authenticity │
│  of the potential recipients │
└─────────────────────────┘
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┌─────────────────────────┐          ┌─────────────────────────┐
│  Preparing a proposal for │ ──────▶ │  Hiring a contractor(s)  │
│  the Zakat Committee      │          └─────────────────────────┘
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                                                  ▲
                                       ┌─────────────────────────┐
                                       │  Implementing the project │
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                                       │  Monitoring and controlling │
                                       └─────────────────────────┘
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                                       │  Giving the homes to the │
                                       │  recipients              │
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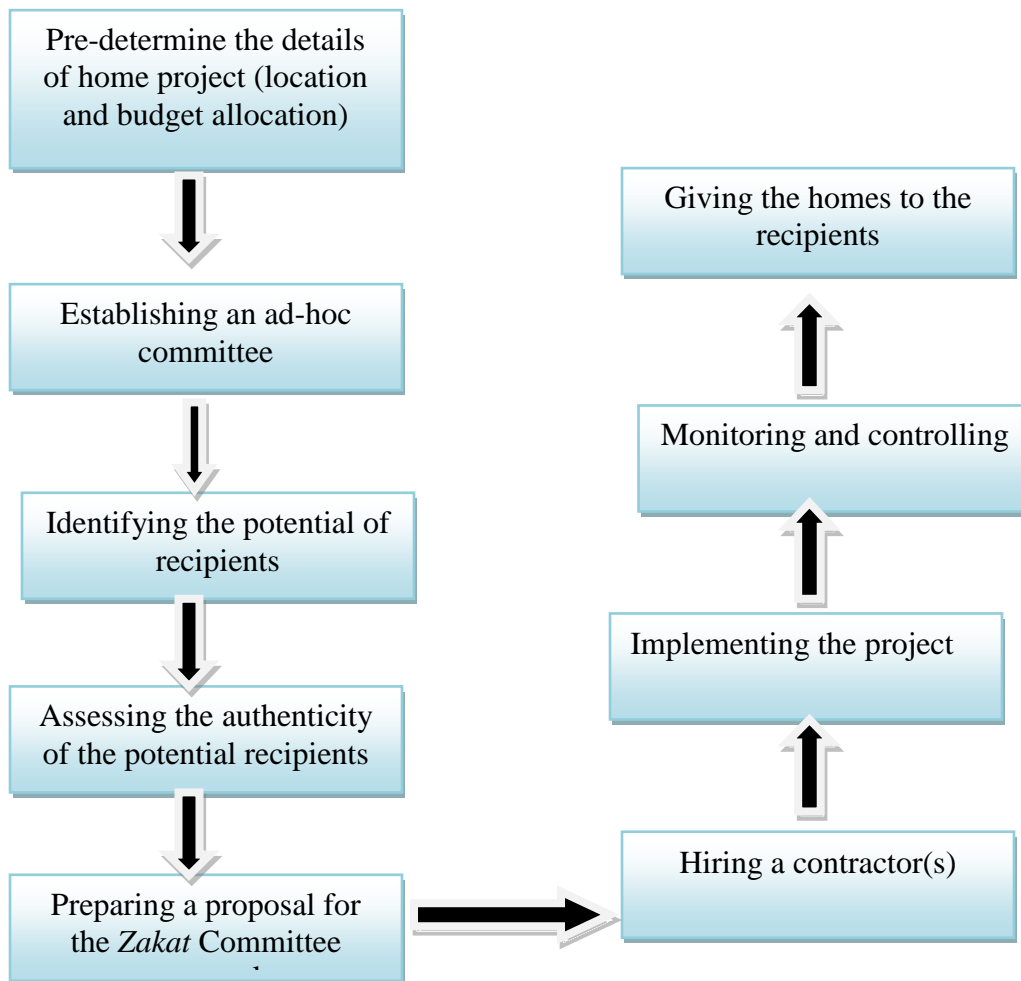
Figure 6.2
Process of Managing Home Projects

6.6.2 PINTAR Program

As a GLC, Bank Islam has a responsibility to participate in the Khazanah Nasional Berhad's program such as the PINTAR (Respondent 9). It is the government's incentive to inculcate the CSR culture among the private sector to improve the socio-economic and educational level in Malaysia (Respondent 1). Among the objectives of PINTAR are to enhance the academic performance of students (especially targeted to the low-income families) through the motivational programs, the tuition classes (English, Mathematics and Science), the answering questions technique, the eco-system awareness as well as improving the teaching and learning environment in the schools (Respondent 1). In addition, this program is a good platform through which to expose the students to the Islamic banking and finance as well as to enhance their knowledge and awareness on usury (*riba*) by conducting talks, seminars and forums to discuss these issues (Respondent 1, Respondent 10 and Respondent 19).

The bank is one of the active financial institutions that is involved seriously in the PINTAR program because many schools in Malaysia are looking forward to getting extra financial support from corporate or business entities to conduct more teaching and learning activities (Respondent 9, Respondent 10, Respondent 19 and Respondent 21). Therefore, the activities in that program have been planned together with the particular schools and funded by the bank (Respondent 1 and Respondent 19). Basically, this program is focused on: (i) improving the teaching and learning process through the academic enhancement activities; (ii) conducting the motivational activities for the school's teachers and students; (iii) organizing the religious activities and upgrading the *Jawi, Quran dan Fardu Ain (JQAF)* facilities; (iv) providing the best student awards to

reward students' achievement (both academic and co-curriculum); (v) initiating the "World of Innovation and Creativity" to improve students' exploratory and creative thinking skills; and (vi) organizing the recycling awareness campaign by having a recycling corner, making useful items from the recyclables and conducting waste audits (Respondent 1, Respondent 10, Respondent 21 and Bank Islam Annual Report 2010). In 2011, the bank invested RM39,000 in improving the English competencies, developing the self confidence and enriching the learning experience of 133 students in five adopted schools nationwide (Bank Islam Annual Report 2011). Some of the activities are short-term (one to three days) and some are continuous programs like the intensive classes and the "From Zero to Hero" program (Respondent 1, Respondent 10, Respondent 19 and Respondent 21). Normally, the bank prepares a report to the Khazanah Nasional twice a year (middle and at the end of year) to notify the progress of the programs that have been conducted (Respondent 19)

6.6.2.1 Phase 1 (2008 - 2010) - Sekolah Kebangsaan Haji Hassan Itam, Alor Setar, Kedah

During the first phase of the PINTAR program, Bank Islam adopted 13 primary schools nationwide for a three year basis from the list of the schools provided by the Khazanah Nasional (Respondent 1 and Respondent 8). The bank allocates about RM500,000 per year and distributes the *zakat* to the poor and underprivileged students in these schools (Respondent 10).

Visiting the schools and identifying their problems

After the bank received the list of schools from the Khazanah Nasional, the staff of the CR Department may conduct a site visit to the schools and discuss with the management of the schools about their problems, issues and needs (Respondent 1). The site visit form (provided by the Khazanah Nasional) needs to be filled in by the visitation team (staff from the CR Department and the nearest branch manager) (Respondent 19). Then, the bank may evaluate their problems case by case before they come up with the final list of 13 selected schools and allocate some budget to run the school's activities especially in relation to the teaching and learning process (Respondent 1 and Respondent 10).

Planning activities for the period

During the program, Bank Islam and the school may discuss and design the activities that are based on their issues and problems like having English Week or a Mathematics Competition to improve their skills and knowledge in those subject matters (Respondent 1 and Respondent 10). Then, the bank requires information on the school's needs to prepare a proposal (through subject coordinators) which indicates the name of the activities and the budget on a yearly basis (Respondent 10). However, the core subjects such as *Bahasa Malaysia*, English, Mathematics, Sciences and also Islamic teachings may get some extra allocations (Respondent 10). The activities should be designed carefully to provide good impacts to the students as well as to the teachers in order to improve their motivation, skills and knowledge for better academic achievement (Respondent 1 and Respondent 10).

<u>Implementing the activities</u>

The principal of the schools may communicate and coordinate with the CR Department to implement the activities (Respondent 10). The subject coordinators are responsible for managing the budget wisely and to ensure the activities can be run smoothly (Respondent 10). Table 6.4 indicates the activities that have been done for Phase I of PINTAR.

Table 6.4
Activities in Phase I of PINTAR

Activities	Target group	Objective
Zakat contribution	Needy students	to increase their social economic status
Contributions in kind (upgrading *surau* or *Jawi, Quran and Fardu Ain* room)	All students	to provide conducive environment
Excellent Student Awards (cash rewards)	Students who excel in exams	to motivate and reward the students
Enhancement program (tuition, motivation workshops and mentoring)	Standard Six students	to help students achieve better grades
Awareness Campaign (collaborate with the police, fire department, Ministries of Health)	All students	to enhance awareness on health and safety
Outdoor activities (summer camps, voluntary work and team building activities)	All students	to develop soft skills and inculcate the caring culture
Islamic activity (religious lectures, *tazkirah* and others)	All students	to improve their understanding on Islam
Talk on Islamic banking and savings (part of Bank Negara requirements)	All students and parents	to enhance students' awareness and knowledge of Islamic banking and finance
Program "From Zero to Hero"	Students who have problems in reading, counting and writing	To lift their skills, self efficacy and knowledge in reading, counting and writing
Recycling awareness program (collaboration program with the New Straits Times)	All students	To increase their awareness on recycling campaigns to preserve the environment
World of Innovation and Creativity	All students	To enhance promote and enhance exploratory learning and creative thinking among students

Usually, the members of the committee may comprise the staff from the CR Department, the nearest branch manager, the principal, the vice principals and the subject coordinators (Respondent 10). Furthermore, the school also may establish another sub-committee for each activity to manage and coordinate the details of the activities (Respondent 10).

Reporting and evaluating the activities

At the end of the year, Bank Islam and the school may evaluate the performance of the activities by conducting a post-mortem session and the achievement of the students may be charted in a graph (Respondent 1 and Respondent 10). The reason is to monitor the progress of the students as well as to take further actions to improve the effectiveness of the activities in that program (Respondent 1 and Respondent 10). All of these activities have been monitored and coordinated by the CR Department of the bank (Respondent 10). Figure 6.3 summarizes the process of managing PINTAR program.
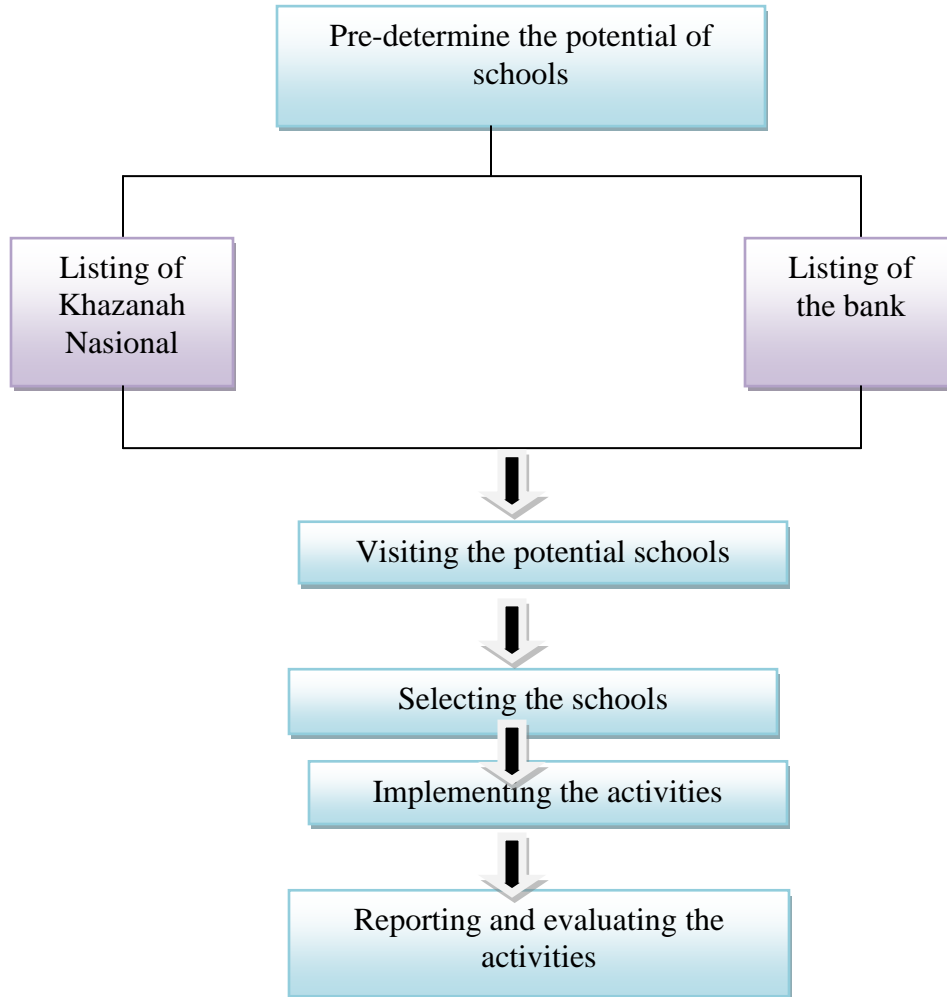
Figure 6.3
Process of Managing PINTAR Program

6.6.3 *Zakat* Contribution to Universities – UUM

Bank Islam allocated around RM1.5 million in 2011 as *zakat* to 70 higher education institutions including universities, colleges and polytechnics through their Students Affairs Department. Among the recipients, UiTM usually receives more because it has many branches all over Malaysia (Respondent 1, Respondent 12, Respondent 16 and Respondent 17). All universities must fully utilize the allocation of the fund within the time frame (normally one year after they get the fund from the bank). According to Respondent 14, the effort of the bank to give the *zakat* to universities is a good initiative to help the underprivileged students and the low income families. At the same time, universities also encourage more corporate entities to follow such practices and work together to improve the national educational level (Respondent 14). This view was shared by Prof. Dato' Dr. Mohamed Mustafa Bin Ishak, the Vice Chancellor of UUM during his speech at the bank's *zakat* presentation to UUM on 12 December 2011. The UUM expressed its deepest gratitude for the giving and the continuous support of the bank to the university in helping the poor students to get additional financial sources. He also mentioned that this good collaboration should be continued and maintained for the benefit of both parties.

At Bank Islam, the Cash Management Department is responsible for preparing the *zakat* proposal to universities and for presenting it to the *Zakat* Committee for the approval of the *zakat* distribution figure (Respondent 12 and Respondent 16). The department is manages and monitors all corporate customer accounts, and the universities' accounts are among the corporate accounts. The role of this department is: (i) to identify the potential recipient universities, colleges and polytechnics; (ii) to propose the amount of *zakat* for

each institution (usually based on the number of Muslim students and estimated number of poor students); (iii) to coordinate with the regional managers and the home/nearest branch for the giving ceremony; (iv) to deal with the universities or the colleges for the event; (v) to provide a standardized guideline (the *Zakat* Handling Guidelines of Bank Islam to University and College Students: *Garis Panduan Pengendalian Zakat Bank Islam kepada Pelajar Universiti dan Kolej*); and (vi) to remind the university to submit a report to the *Shariah* Division after the fund has been fully utilized based on the format provided (Respondent 12, Respondent 16 and Respondent 17).

After receiving the *zakat* from the bank, the universities may distribute this allocation to the poor and needy students according to the guideline provided as well as their guidelines (if any) (Respondent 12, Respondent 16 and Respondent 19). The guideline outlines the rules, conditions and procedures of distributing the fund to the students. On top of that, the university should be aware that the *zakat* fund is dedicated to the benefits of the students, not to the benefits of the university (Respondent 1, Respondent 8, Respondent 12 and Respondent 16). According to Respondent 12, the bank started giving the *zakat* to all universities in Malaysia (public and private) since the last four or five years. In the case of UUM, the practice started in 2007 (Respondent 12). The collaboration of the bank and the universities in distributing the *zakat* to the students may give synergy to the practice because the Students Affairs Departments of the universities know their students well (Respondent 8).

<u>Designing/planning the project</u>

According to Respondent 11 and Respondent 14, after receiving the amount of *zakat* from Bank Islam, the Student Affairs Department of UUM will manage the fund. The department also gets advice and guidance from the Islamic Center of UUM especially in determining the eligible students to receive the fund. The major task of the department is to identify the eligible students (usually local students) to receive the *zakat* (Respondent 11 and Respondent 14). Several channels are used to get the name of students: (i) applications from the students (they come to the department and fill in a form that is like a welfare form); (ii) during orientation week, the officer of the department will distribute the form and some of the new intake students who are eligible are invited to fill in the form and submit it to the department (which will then create a special database of them); (iii) suggestions from lecturers, staff, deans of colleges or heads of departments; (iv) suggestions from other departments in the university; (v) from the medical reports of the students (for the students with a disability); (vi) suggestions from the peer counselors unit (Respondent 11 and Respondent 14).

Furthermore, the university establishes several categories of students who are eligible to receive the *zakat,* namely: (i) the poor and needy students; (ii) the orphan students (who are excel academically); (iii) the disabled students (including students who have a critical illness); and (iv) the students who are faced with a disaster (such as flood, fire, accident) (Respondent 11, Respondent 12 and Respondent 14). Then, to verify the validity of the students' status, the department may conduct interview sessions with them and may get their background information from the designated peer counselors. Allocation of the fund is based on the total number of identified students according to their categories.

Furthermore, if the fund still has a balance, the university may consider giving it to the students who show an impressive academic enhancement. It is hoped that this incentive should motivate them to study hard for better academic achievement in the future. After a list of students has been prepared and endorsed by the Head of the Student Affairs Department, then the list may be submitted to the Vice Chancellor of the Student Affairs to be approved.

Implementing

Usually, a giving ceremony is organized to distribute the *zakat* to the students and the mode of giving is in two options (cash or directly to a new account such as ASB and so on) (Respondent 11). During the event, the department may remind the students about the responsibility to use the *zakat* money for a good cause, that is, to improve their academic performance. The officers of the department may advise the students how to manage their budget wisely and improve their financial planning (Respondent 11).

Monitoring and reporting

Respondent 12 and Respondent 16 explained that in monitoring the *zakat* to the universities, the bank produces the guideline to provide the details on the criteria of students who are eligible to receive the *zakat*. After the fund has been distributed, the responsible department of the university may prepare a report (the details of how the fund has been managed) to the *Shariah* Division of the bank (Respondent 11, Respondent 12 and Respondent 16). The format of the report is attached in Appendix F. Another additional requirement is imposed to the universities, that is, establishing a separate account (the fund for students' welfare).

Furthermore, the Student Affairs Department of UUM also takes the initiative to monitor the progress of the students who received the *zakat* especially their academic performance. The department also offers part-time jobs to this group of students at the university's kiosk to get the extra money (financial support) as well as the counseling services to improve their wellbeing. The department also plans to collaborate with the Computer Center of UUM to computerize all the processes in distributing the *zakat* to the students (*zakat*/donation distribution system) shortly. Thus, Figure 6.4 illustrates the process of managing *zakat* distribution to universities.
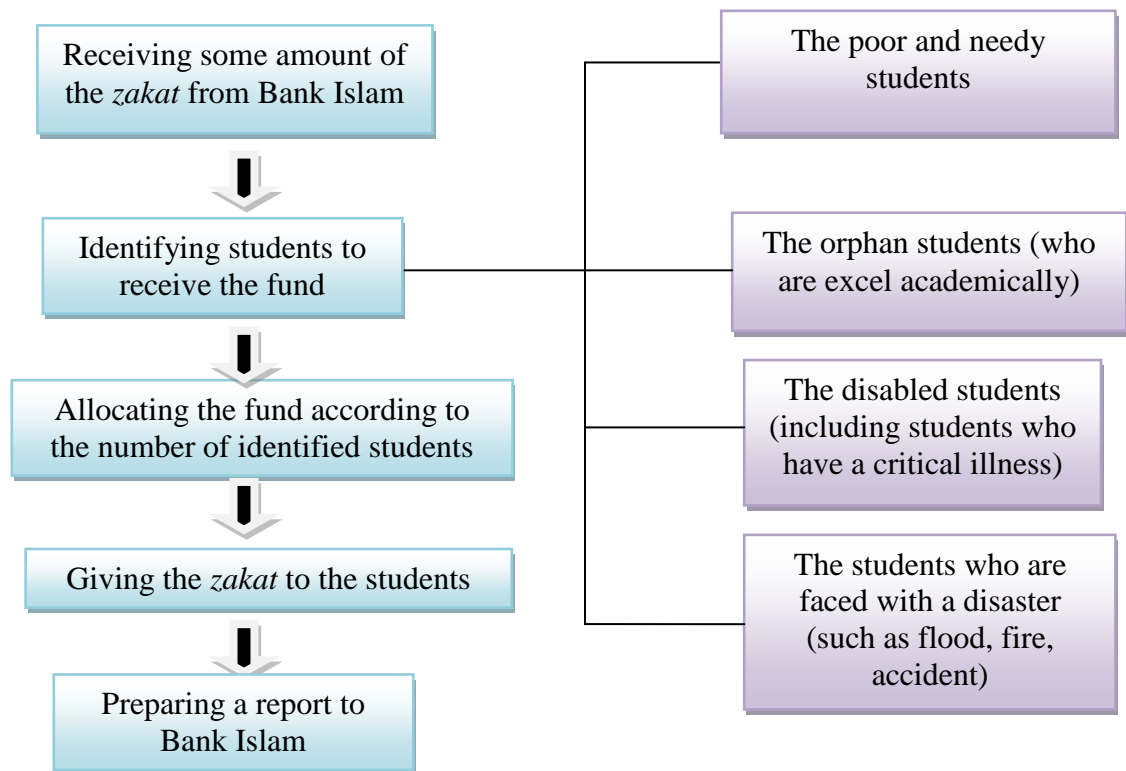

Figure 6.4
Process of Managing Zakat Distribution to Universities

6.7 Continuous Communication and Reporting of CSR

In order to increase CSR effectiveness, efficiency and awareness, continuous communication and reporting of the CSR initiatives may be considered as an important effort to manage the CSR programs (Respondent 1, Respondent 9, Respondent 15, Respondent 17, Respondent 19 and Respondent 28). According to Respondent 1 and Respondent 16, the bank follows the following principles in relation to the CSR disclosure: (i) as a business entity, the bank has an obligation to disclose all information pertaining to their activities including the obligation to pay the business *zakat* to all stakeholders; (ii) acknowledge the right of the bank's stakeholders to get the right and fair information; and (iii) get consensus from the religious authority of the bank (SSC) that such practices do not contradict the *Shariah* compliance.

Furthermore, for Bank Islam, the motives behind CSR reporting and disclosure are: (i) not to show-off but to discharge their responsibilities in conducting the business ethically and prudently; (ii) disclosing such information in the media or other type of communication channels to increase the public awareness of the CSR activities of the bank; (iii) to comply with all requirements and standards on the CSR disclosure and reporting; (iv) to attract customers or potential customers to the bank; (v) to promote transparency and full disclosure in reporting of the business operation by disclosing any *Shariah* non-compliance in the annual report (in the SSC report as well as in the financial statements); (vi) to share this practice (using *zakat* funds to conduct the CSR initiatives) with other business organizations and encourage them to participate actively in the CSR activities for the Muslims' development; (vii) to improve the trust and confidence of the public towards the brand of the bank; and (viii) to sustain the business in the highly

competitive banking and finance industry. Furthermore, the bank employs the Silver

Book guideline, the AAOIFI standards and also the *Shariah* Governance Framework of

Bank Negara Malaysia GP3 (Respondent 9 and Respondent 16) for reporting:

> We follow the Silver Book for reporting and so on. Again, in Islam, if we conduct charity, we should not propagate. But, what we are trying to share this. Actually, if we can share this experience to the industry, we hope more participation from the industry. I think that has been successful. For example, zakat … the moment people realize that the organization can use zakat fund to conduct CR [CSR] activities.
>
> (Respondent 9)

At the bank, there are several channels of communication such as internal email, internal

portal, meetings, bulletins, progress reports, and magazines for internal stakeholders. For

external stakeholders' purposes, formal organizational documents such as annual reports,

separate CSR reports, and brochures are used as to communicate the CSR initiatives. In

addition, newspapers, electronic media, billboards, banners, press releases and traditional

advertising (e.g. campaigns) are used widely to update the stakeholders on the bank's

CSR activities. These various channels of the CSR communications are important to

ensure the accessibility of the right target group of stakeholders (Respondent 28).

According to Respondent 17 and Respondent 28, media is among the most effective

channels as compared to the annual reports for communicating the CSR activities to the

public.

For Bank Islam, the process of CSR communication and reporting is very structured, as

commented by Respondent 7 and Respondent 28. However, from the Islamic perspective,

the objectives of communicating and reporting are to show the *Shariah* compliance has

been taken care of and to demonstrate the responsibility, accountability and transparency

of doing business towards Allah, the environment and society at large (Haniffa & Hudaib, 2007). Pertaining to the *zakat* fund management, the bank may provide a detailed report to all *zakat* authorities on the *zakat* distribution and may update the SSC regularly on the *zakat* fund management. Moreover, Islam urges truthfulness in disclosing all information whether such information could create a good or bad image for the organizations (Maali *et al.*, 2006). Thus, in the *Tawhid* and *Shariah* paradigm, an Islamic business entity is required to be transparent and to fully disclose the operation (e.g. Quran 2:42; 4:33; and 87:7) to maintain the good relationship with Allah (SWT), other human beings and the environment as well as to promote its corporate ethical identity (Haniffa & Hudaib, 2007).

In this sense, the Corporate Communications Department of the bank is responsible for coordinating all information that may be released to the public and for managing all the communication channels of the bank (Respondent 1, Respondent 7, Respondent 12, Respondent 13 and Respondent 28). Furthermore, the department has to maintain a good relationship with the media players as part of the image building process (Respondent 1, Respondent 7, Respondent 16, Respondent 17, Respondent 19 and Respondent 28). The bank recognizes the importance of the media as a key stakeholder in the banking and finance industry (Bank Islam Annual Report 2010). Then, Respondents 16 commented as follow;

> Now, we engage somebody who is expert in branding. We hire a branding advisor to handle this matter. He will connect us with the media and newspaper operators. Previously, we don't have a good relationship with the media. That relationship we don't manage wisely. Then, that is why the Bank Islam's name is not exposed to the public [not well recognized] as compared to now.
>
> (Respondents 16)

In addition, the Reporting Unit was established under the Corporate Communications Department to produce an informative and attractive annual report of the bank. The findings align with the previous literature which suggests that corporate communications departments need to have a good relationship with the media to get the positive stories released and work together with the investor relation unit to produce the annual reports (Waddock, 2009). These efforts are designed to enhance the awareness of an organization's CSR indicatives (Maignan *et al.*, 2005; Werre, 2003) and to increase the organization's image in the eyes of the public. Recently, the bank published its environmental activities (beach cleaning at Dungun) on the website of Project AWARE (www.Projectaware.org) and the website is managed by the Project AWARE Foundation (Respondent 28). The objective of this international foundation is to protect the ocean (*About the movement*, n.d.).

On the other hand, according to Respondent 9, Respondent 12 and Respondent 28, not all information [the details] regarding the CSR activities need to be disclosed and made known to the public especially the amount of money involved: "We disclose only information that materialized to the public in the annual reports and some of that is confidential especially the figure involved… so, we just round up the figure and put more pictures for attractiveness" (Respondent 28). Respondent 9 shared the same view: "You won't find the information [the details] in the annual reports, because the way it is being reported now… is mainly coming from initiatives or activities… specific activities or programs. That is how the current framework puts into for the CSR award".

6.8   Summary of the Chapter

This chapter described the CSR management process of Bank Islam. It started by looking at the sources of CSR funds particularly the *zakat* management and the CSR budgeting. In that sense, accountants may help the management team to make better decisions on the CSR engagement. Being a pioneer in Islamic banking, the bank is proactive in establishing frameworks on the *Shariah* compliance to combat the negative perspective of the public towards the bank. Then, in the process of managing the CSR initiatives, the bank shows some positive improvements in terms of the content and the objectives of the program, the approaches that have been used, the impact on the beneficiaries and also the budget of each activity that has been proposed.

In addition, based on the respondents' points of view, the site visit observation as well as documentation reviewed, and the several steps in the CSR management process have been discussed in detail in this chapter. The findings may help this study to propose a CSR managerial framework (as presented in detail in Chapter 7). Thus, by selecting three CSR programs of the bank, this study is able to illustrate the process of managing these programs to gain a better understanding of the whole process. The programs have been done successfully due to the commitment and involvement of all parties especially from the top management, the staff of the bank, the beneficiaries, the government agencies, the contractors and the local communities. These programs have revealed the commitment of the bank to enhance the wellbeing of society in various aspects like the educational development and the socio-economic status of the beneficiaries.

CHAPTER SEVEN: DISCUSSIONS OF THE KEY FINDINGS

7.1   Introduction

This chapter discusses in detail the key findings of this study and presents the findings in several sections. It starts from an overview of the Islamic concept of CSR in Section 7.2. In this sense, CSR may be considered as part of a company's commitment to be a responsible corporate citizen. In Section 7.3, the *zakat* management process, including some issues pertaining to the *zakat* payment and distribution, is described. At Bank Islam, CSR engagement is highly related to the *zakat* due to the substantive amount of the CSR fund that is derived from the *zakat* fund, and the *Shariah* provides a guideline for proper distribution of the *zakat*.

In Section 7.4, the external and internal factors that may influence the CSR engagements are discussed, followed by the benefits of engaging in such activities in Section 7.5. In conducting CSR activities, the bank may deal with some challenges as explained in Section 7.6. The process of CSR management which involves a number of phases like environmental scanning, designing, implementing and evaluating is discussed in Section 7.7. This section also proposes a managerial guideline for companies that want to embark on the CSR initiatives. Section 7.8 presents an overview of the trends and future directions of CSR engagements at the bank. The final section is a summary of the chapter.

7.2   CSR is New Terminology but Old Practice

Muslim business entities that perform the business *zakat* or other kinds of charitable donations and contributions focused on societal development are engaged in social activities of many years ago. For Bank Islam, the respondents claimed that the bank engages in the CSR for two interrelated reasons, which are to fulfill religious obligations (as part of *fard kifayah*) in developing the community surrounding the business and to promote the name of Bank Islam as well as the Islamic banking products and services. These two objectives can be classified into a few agendas of CSR: (i) fulfillment of religious obligations; (ii) social agenda; and (iii) economic agenda. Thus, it seems that the bank conducts CSR activities to achieve the objectives of *Shariah* or *maqasid Shariah* which are concerned with the fulfillment of spiritual and material aspects to protect faith (*din*), life (*nafs*), intellect (*'aql)*, prosperity (*nasl*) and property (*mal*). In this sense, Muslim business players are encouraged to spend their wealth to help the poor and needy people to improve their wellbeing as well as to promote social justice, *barakah* and *al-falah* in this life and the Hereafter (Dusuki & Abdullah, 2007a; Haniffa & Hudaib, 2002; Mohammed, 2007).

In the religious agenda, the bank should: (i) fulfill the demand of Muslims towards Islamic banking and finance (*fard kifayah*); (ii) discharge its social obligation through paying the business *zakat* (purification of wealth); and (iii) conduct the business in accordance with the *Shariah* principles and Islamic values. For instance, most of the respondents related the concept of CSR to the religious obligation through paying the business *zakat* and explained that Bank Islam utilizes the refundable *zakat* to conduct CSR initiatives. Previous studies also assert that the CSR engagements of Islamic

business entities are highly related to the religious obligation (Dusuki & Abdullah, 2007a; Jamali *et al.*, 2009), particularly in the performance of *zakat* (Farook, 2007; Parvez & Ahmed, 2004). *Zakat* is highly associated with the spiritual connotations (Gambling & Karim, 1986; Md Ramli *et al.*, 2011) (governed under the *Tawhid* and *Shariah* paradigm) and the *zakat* has social and economic impacts on the Muslim society.

Thus, CSR is considered to be important to the Islamic business entities because it is related to the *Tawhid* and *Shariah* paradigms which govern the relationship between men and Allah, men and other human beings (*hablun min' Allah and hablun min An-nas*), and men with the environment. Through this concept, the ultimate objective of conducting CSR is to achieve *barakah* and *al-falah* in this life and the Hereafter for the benefits of *ummah* (*maslahah ammah*). Through these social engagements, the relationship of business players with Allah (SWT), other human beings (*hablun min an-nas*) as well as with the environment will be enhanced (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001). However, in Muslim society, the terms *sadaqah* (charity and donations), *zakat, qard*, and *waqf* (philanthropic trusts) are more well-known. Muslims have already engaged in such practices for a long time before the term (CSR) was introduced to the business world.

Hence, the integration of religious responsibility in the Islamic concept of CSR (Farook, 2007; Jamali *et al.*, 2009; Mohd Nor & Asutay, 2011; Parvez & Ahmed, 2004) requires all Muslims business players to practice naturally the concept and integrate the CSR culture into day-to-day business operations and conduct religious or spiritual activities (Muwazir *et al.*, 2012) such as religious talks and discussions to improve Muslims' understandings about Islam and its teachings. In a similar vein, engaging in CSR

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initiatives is considered as part of *ibadah* (worship) and obedience to Allah (Rice, 1999) in order to deserve rewards not only in this life (*dunnya*) but also in the Hereafter (*akhirat*) (Quran 62:10) if they are performed in accordance with Allah's will and *Shariah* principles to achieve the objectives of *Shariah* (*maqasid Shariah*). Indeed, CSR engagement in the Islamic context is necessary for individuals who have a sense of responsibility and accountability (*masuliyyah*) to their work not only to their employer but ultimately to Allah (Haniffa & Hudaib, 2002; Sadeq, 2001).

For the social agenda, the bank may improve the wellbeing of society and preserve the environment for future generations. According to Haniffa and Hudaib (2002), the social aspects in Islam are based on the concepts of *Tawhid,* justice, and *maslahah*. In this context, Islamic business entities are concerned with fulfilling the social obligations towards their stakeholders such as employees, shareholders, customers, community and environment to attain *al-falah* as well as to promote socio-economic justice. Through the concept of *khalifah* (vicegerent), managers should properly manage company resources (human and financial resources) to the benefits of all stakeholders and be accountable for all their decisions and actions in this life. In addition, Islam also urges Muslim business players to protect and preserve the environment because these natural resources are valuable assets that have been created by Allah (SWT) for the sake of human beings.

Lastly, in the economic agenda, the bank may conduct the business profitably for the benefits of all stakeholders including shareholders, employees, customers and society According to the AAOIFI (2004), Islamic banks have an economic responsibility to be financially viable, profitable and efficient to strengthen the Muslim socio-economic development. The bank may engage in more CSR activities if it has a large economic

pool to be used. This material aspect urges Muslim business players to actively take part in developing Muslim society and reducing the poverty rate among Muslims. This is part of *fard kifayah* which requires Muslims to take care of each other as in a *Hadith* of Prophet Muhammad (pbuh): "The Muslim is the brother of his fellow Muslim" (Sahih Muslim).

Therefore, this finding is aligned with prior studies that claim Islamic banks engage in CSR initiatives to fulfill religious, social and economic obligations to the Muslim society (*ummah*) (Dusuki, 2008a; Dusuki & Abdullah, 2007b; Farook, 2007; Parvez & Ahmed, 2004; Sairally, 2013). Many scholars claim that Islamic banks have a social obligation towards society and environmental surrounding the business (Abu Bakar & Abd Ghani, 2011; Arshad *et al.*, 2012; Farook *et al.*, 2011; Hassan & Harahap, 2010; Mohammed, 2007; Mohd Nor & Asutay, 2011) through paying the business *zakat* and also engaging in more CSR initiatives for the society's development. Muslim stakeholders are also required to encourage the Muslim business entities to be actively involved in the social activities by giving full commitments to their CSR initiatives (Arshad *et al.*, 2012).

In addition, to be a responsible banker, an Islamic bank may: (i) conduct the business for a just, fair and balanced society (absence of *riba* transactions, speculations (*gharar*), oppressions (*zulm*) and paying business *zakat*)); (ii) be based on the principles of brotherhood (*ukhuwwah*) and cooperation which promote the concept of sharing and mutual consensus between the provider of fund (shareholders and depositors) and the user of the fund (the management of the bank); (iii) follow all *Shariah* principles and values (should not finance any projects which involve the liquor industry, cigarette company, casino, night clubs, gambling industry and many more); and (iv) promote the

social responsibility and accountability (*masuliyyah*) for social and environmental wellbeing. Thus, the Islamic concept of CSR is always an integral part of the Islamic banking system. At Bank Islam, the CSR programs are integrated into its core business and have a direct relationship with the Islamic banking industry. For instance, the bank organizes or co-sponsors seminars, conferences and talks at international, national and community levels to improve the knowledge and awareness on the Islamic banking and finance system. The bank's involvement in the PINTAR program also provides an opportunity to expose school and university students to Islamic banking and encourage them to manage their financial sources wisely.

In addition, this study concludes that the CSR engagements at Bank Islam go beyond the philanthropic activities due to the strategic alignment of CSR into its business strategy, objectives and culture. This statement is also supported by Arshad, Othman and Othman (2012) and Muwazir *et al.* (2012) who indicate that CSR may be part of the business strategy and policy that can drive the performance-related behavior for the competitive advantage of the business. As a business entity, the bank may utilize various sources of CSR funds to conduct more CSR activities to enhance the wellbeing of the Muslim community as well as to promote the benefits of Islamic banking and finance to the world.

In sum, CSR is about any activities in which the bank engages to discharge these responsibilities and accountabilities in order to maintain a good relationship to Allah (*hablun min Allah*), other human beings (*hablun min an-nas*) and the environment to achieve *maqasid Shariah* and *maslahah ammah*. The ultimate objectives of CSR engagements are to attain *al-falah* and *barakah* as well as to enhance the wellbeing of

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stakeholders and also for business sustainability. These activities may be governed under the *Tawhid* and *Shariah* paradigm to address the various stakeholders' needs and expectations. The meaning of CSR in one organization is different to the meaning in another (Hond, Bakker, Neergaard, & Gond, 2007) and may be based on the type and nature of the business to fit with the organization's goals. Hence, each organization should develop its own meaning of CSR (Maon, Lindgreen, & Swaen, 2008) to reflect the organization's particular values and goals. A clear CSR vision and core corporate value need to be established and linked to the mission, vision and values of the organization (McElhaney, 2009).

7.3   *Zakat* Management

The findings of this study indicate that Bank Islam is involved directly in distributing refundable *zakat* to three main categories of *asnaf*, which are the destitute (*fuqara'*), the poor (*masakin*) and for Allah's Cause (*fisabilillah*). Basically, the objectives of *zakat* are to promote the equitable distribution of wealth among the Muslim community and to support the *asnaf* to upgrade their standard of living based on their needs and condition (to determine the form of distributions). Hence, the various forms of *zakat* distribution are important in tailoring the aid to the needs of recipients not only to fulfill their basic needs but also to generate more benefits from the giving (self-sustainability) (Ab Rahman *et al.*, 2012; Abu Bakar & Abd Ghani, 2011; Md Ramli *et al.*, 2011).

The effectiveness of *zakat* distribution can be measured through the improved quality of the recipients' life, basic needs (*daruriyyat*) and comfort (*hajiyyat*) including food, education, health, shelter and economy of the recipients (Abd Wahab & Abdul Rahman, 2011; Abu Bakar & Abd Ghani, 2011). For Bank Islam, a few strategies are implemented

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to achieve the specific objectives to distribute the *zakat* fund in an effective manner as shown in Table 7.1. The bank's efforts in its *zakat* practices were recognized by the JAWHAR through the award of the "*Anugerah Zakat Kebangsaan 2012 - Kategori Syarikat Awam Berhad*" (Bank Islam Annual Report 2012).

Table 7.1
Objectives and Strategies in Distributing the Zakat Fund

Objectives	Strategies	Implications
To help as much as *asnaf* in Malaysia	- All the bank's branches are eligible to propose the CSR projects and name of *asnaf* - Rotation of Home Project among states in Malaysia	- The coverage of *asnaf* (recipients) is nationwide and the branches get an opportunity to know their local communities very well - The Home Project may be conducted in every state in Malaysia
To improve the quality of *asnaf* life	- Provide equipment instead of money (e.g. M*anjadda wajada* program)	- They can use the equipment to generate more money.
To conduct the initiatives in creative way	- Plan the initiatives based on the needs of recipients - Strategic alliance with third parties like universities and government agencies	- Provide a fully-furnished house - Let them determine the *asnaf* (recipients)
To finish the *zakat* fund within a year	- Regular *Zakat* Committee meetings to update the progress - Report the progress to the SSC	- To monitor the usage of the fund
To maximize the value for money	- Proper *zakat* planning and allocation	- To improve the well being of *ummah* (Muslim society)

7.3.1   Issues in Managing the *Zakat* Fund

At Bank Islam, the *zakat* fund (refundable *zakat*) is a main financial source of the CSR fund to conduct CSR initiatives. To improve the process of managing the fund, this study identifies a number of issues.

7.3.1.1   Selecting the *asnaf*

In determining the *asnaf,* Bank Islam has initiated several procedures such as: (i) strategic alliances with the State Religious Council, government agencies, universities and local communities; (ii) site visits; and (iii) third-party verification. Ab Rahman (2011) suggests that in determining the eligible recipients (*asnaf),* organizations can collaborate with certain agencies to get the information of the poor and needy in Malaysia, and the community may also be proactive in helping the organizations to determine the *asnaf.* Further, Md Ramli, Ahmad, Wahid and Harun (2011) claim that in selecting the *asnaf* for entrepreneurship programs, the attitudes of recipients (*asnaf*) should be examined carefully (commitments and readiness to run a business) in order to enhance the successfulness of the *zakat* distribution program. In this sense, the process of determining the recipients of the capital assistance starts from establishing a good selection procedure including conducting an interview and asking the recipient to present their business plan. The recipients may: (i) attend business training and courses to equip themselves with business knowledge and skills; (iii) become involved in a continuous learning process; (iv) be monitored by a good monitoring system; and (v) be provided with a center or incubator to facilitate their activities (Md Ramli *et al.*, 2011).

7.3.1.2 Establishing policies and guidelines

All the *zakat* authorities in Malaysia may provide single (standardized) policies and guidelines in managing the business *zakat* (payment and distribution). Furthermore, the authorities may also give an option to the *zakat* payer organizations to distribute their *zakat* on behalf of the *zakat* authorizes but in accordance with the guidelines. In the case of Bank Islam, the Business *Zakat* Payment Guideline has been introduced to provide a standard guideline in managing the bank's business *zakat* payment and distribution. For Affin Islamic Bank, the *Zakat* Policies (adapted from the "*Manual Pengurusan Agihan Zakat*" from the *JAWHAR,* and the "*Panduan Zakat di Malaysia*" from *Jabatan Kemajuan Islam Malaysia* has been set up to regulate all activities in managing the *zakat* fund of the bank (Ab Rahman, 2011).

7.3.1.3 Long-term distribution program

As proposed by several studies such as Ab Rahman (2011), Ab Rahman, Alias and Syed Omar (2012) and Abu Bakar and Abd Ghani (2011), long-term distribution programs may be established to alleviate the poverty of the recipients by providing the monetary capital or equipment, establishing the "*Asnaf* Excellent Center" and collaborating with universities to conduct training and courses to enhance their skills and knowledge (capacity building) to generate money independently. In this context, the bank plans to create the "Bank Islam Foundation" to finance the studies of the best students from poor families or potential young leaders and to prepare them with necessary skills for the job market. The establishment of a company foundations may enhance the effectiveness of corporate contribution management (Morris & Biederman, 1985).

7.3.1.4 Commitment and competency of the bank's staff

In order to enhance the competencies of the bank's staff particularly those who are directly involved in managing the *zakat* fund, the bank may liaise with the *zakat* authorities to conduct workshops, conferences and talks to share their experiences and practices. Hopefully, through these efforts, awareness, knowledge and understanding on the *zakat* management may be improved.

7.3.1.5 Managing conflicts of interest

In reviewing the *zakat* application of the respective *asnaf*, all of the *zakat* procedures including complete and valid supporting documents should be examined carefully. All of the cases should get fair investigation and consideration. Additionally, the process of selecting the *asnaf* may not be interrupted by third parties who may have a certain agenda such as political motivations or family relationships. The final decision needs to be discussed and endorsed by committee such as the SSC, State Religious Council, *Zakat* Committee, Corporate Communications Department and *Shariah* Division, based on their approving authority limit.

7.3.1.6 Monitoring and reporting

Bank Islam should monitor the usage and the progress of the program to ensure the effectiveness of the giving from the *zakat* fund and to avoid the mismanagement of the fund. The bank aims to strengthen the system of monitoring the recipients by establishing a good mechanism to monitor the fund. This concern is highlighted by Ab Rahman (2011) who suggests that the *Zakat* Department of Affin Islamic Bank may get the *zakat* financial statement from the recipients as a documentation record. Additionally, for all *zakat* distributions to the higher education institutions, the bank requires the institutions

to submit the report (standardized report as presented in Appendix F) to the *Zakat* Committee of the bank on the usage of the funds given. In addition, Bank Islam also needs to update regularly and prepare a comprehensive report to the *zakat* authorities on the activities using the *zakat* fund.

7.3.2   Trends and Improvements in *Zakat* Management

7.3.2.1   Inculcate the culture of self regulation in distributing *zakat*

In order to encourage more Muslim organizations to pay the business *zakat*, the *zakat* authorities may consider the culture of self regulation in distributing the *zakat* among Malaysian companies. However, the organizations must demonstrate their capabilities and procedures to prevent any mismanagement of the fund. According to Respondent 9, this good initiative has been followed by other organizations such as Telekom Malaysia and TV3. In addition, Ab Rahman (2011) claims that the method of paying *zakat* (whether through *zakat* institutions or *baitulmal*) should not be debated as long as the organizations pay the *zakat* and they distribute it to the eligible recipients (*asnaf*) in accordance with the guidelines and rules provided by the *zakat* authorities.

Bank Islam also takes an initiative to distribute its refundable *zakat* directly to the *asnaf* (individuals and organizations) based on the Business *Zakat* Payment Guidelines of Bank Islam with the supervision of the SSC and the *Zakat* Committee of the bank. Based on the findings, this study notes that, the practices of Bank Islam in managing the *zakat* fund are similar with other Islamic banks (Ab Rahman, 2011) in terms of: (i) the objectives; (ii) having a separate committee to manage the fund; (iii) the managing process (selecting the *asnaf*); (iv) establishing the specific guidelines and policies; and (v) the programs that

have been conducted (the home project and the *zakat* distribution to the higher education institutions).

Hence, this study proposes that the *zakat* authorities should establish a standard guideline to all *zakat* payer organizations in Malaysia for the method of payment and distribution. This initiative may promote more *zakat* payer organizations to distribute their *zakat* by themselves but with close monitoring of such practices by the *zakat* authorities. This study argues that by delegating the power of *zakat* distribution to the *zakat* payer organizations, it may reduce the workload of the *zakat* authorities in managing the *zakat* fund particularly in identifying the right beneficiaries (*asnaf*). Previous studies also claim that the *zakat* authorities have problems in distributing the *zakat* fund including: (i) various responsibilities are shouldered by the *zakat* institutions (Lubis *et al.*, 2011; Md Hassan *et al.*, 2012); (ii) ineffective distribution method and lack of staff in these institutions (Ab Rahman *et al.*, 2012; Lubis *et al.*, 2011); (iii) lack of proper governance mechanisms (Abd Wahab & Abdul Rahman, 2011); and (iv) attitudes of the *asnaf* to manage successfully the capital assistance in the *zakat* distribution program (Md Ramli *et al.*, 2011).

7.3.2.2 Manage the *zakat* fund in a more structured way

In designing the CSR practices, the bank encourages its employees to suggest the relevant CSR program and also to nominate the potential recipients. The involvement of different levels of staff in planning the *zakat* fund may help to enhance the effectiveness of the program: "Our *zakat* distribution events are more creative" (Respondent 7). Further, the bank also encourages other departments or branches to collaborate in managing the *zakat* fund's projects such as the "Projek Bantuan Rumah*"* and the *zakat* contribution to the

universities. Moreover, the establishment of the *Zakat* Committee and the State Religious Council may improve the efficiency of the *zakat* management process.

7.3.2.3　　　　Strategic collaboration with third parties in managing the *zakat* fund

In order to support the limited number of staff in the CR Department of Bank Islam, strategic collaboration with third parties may contribute to the success of the programs such as: (i) universities and colleges (through the Student Affairs Department) for the *zakat* contribution; (ii) schools for the PINTAR program; (iii) the government agencies like the JKM and local statutory government for the Home Project; and (v) local communities. Table 7.2 illustrates how these collaborations work in managing CSR initiatives.

Table 7.2
Collaboration of Bank Islam in Managing CSR Initiatives

Managing process	Collaboration partners
Determining the potential recipients (*asnaf*)	• They know better their local surrounding - they are part of the community. • Become a gatekeeper and informant to propose the potential recipients (*asnaf*)
Designing the programs	• They can propose the content of the program (approach, form of distribution) based on priorities, conditions and needs of the potential of recipients (*asnaf*) • Sharing their expertise and available resources (staff, logistics and power) in managing social activities
Implementing	• Taking part in the process of implementing - helping hands, involvement of their staff in the project • Utilizing their available resources to conduct the programs
Monitoring	• Regularly update the progress of the project to the bank (support the limited number of staff in the CR Department and reduce the cost – if the bank assigns its staff to monitor). • Prepare and submit the report on the program to the bank.

For example, before the rebranding of the bank, distribution of *zakat* to university students was handled by the bank. Now, the bank gives the *zakat* (in a lump sum) to the universities (through their Student Affairs Departments) and lets them select the recipients of the *zakat* based on the guidelines provided. For the bank, the universities may know their students better and it is easy for the Student Affairs Departments to monitor the usage of the fund to improve the students' academic performance. In this collaboration, the parties share the same objectives and the target group: to help the poor and underprivileged students to get better results as well as to improve their quality of life. In this sense, the universities are also looking for additional financial funds to help the students who have financial problems.

Such collaboration and cooperation in managing the *zakat* fund may help the bank to achieve the objectives to enhance the wellbeing of the beneficiaries in an effective and efficient approach (Md Hassan *et al.*, 2012). However, the bank should establish a mechanism to monitor the bank's collaboration partners closely to ensure the focus and the objectives of the program will be achieved and that the fund is not being used for other purposes. For instance, the bank requires the universities to prepare and submit a detailed report on how the fund has been managed (Appendix F).

7.3.2.4   Provide more incentives to *zakat* payer organizations

The government should provide more incentives to all *zakat* payer organizations especially in the form of tax incentives of the *zakat* amount paid (double tax deduction incentive or full deduction as for individual *zakat* payers) to encourage more business organizations to pay the *zakat*. This recommendation is also highlighted in a study by Abdul Rahman and Awang (2003) which concludes that Malaysian companies are keen

to pay the *zakat* if they get some tangible benefits (financial and other kind of benefits) and they feel it is onerous to pay two types of levy: corporate tax and *zakat*. Hopefully, by providing this incentive more Muslim business organizations may perform the *zakat* to develop Muslim society in Malaysia.

7.4   Factors in CSR Engagement

Environmental scanning helps organizations to learn the external potential influences and how to respond to such issues in a timely and effective manner (Albright, 2004). This process is important to the bank as a way to identify and understand the external forces that may influence the process of CSR decision-making particularly in the budget allocation process and the selection of programs (calendar of CSR events) to respond to the needs of stakeholders and the market. This effort may be integrated in the process of CSR planning to respond to all unexpected changes that may affect the CSR engagement. According to Albright (2004), environmental scanning should be done on an ongoing basis in order to respond effectively and quickly to the external forces.

For Bank Islam, the main external factors that influence the CSR practices are: (i) social responsibility; (ii) religious obligation; (iii) *Ramadhan* (fasting month); (iv) business environment; (v) pressure from various stakeholders; and (vi) strategic alliances with third parties. As an Islamic business entity, the bank is committed to conducting the business in accordance with the *Shariah* principles and guidelines and to engaging in CSR initiatives to discharge its religious, social and economic responsibilities to the various stakeholders. On top of that, this social obligation is part of *fard kifayah* for Muslim businessmen. By performing the business *zakat* since the date of incorporation regardless of profit and loss, the bank demonstrates that it considers the social

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responsibility to be part of its business agenda, and ultimately, to fulfillment religious obligations. Many Muslim scholars perceive that Islamic banks have a social face (Arshad *et al.*, 2012; Mohammed, 2007; Sairally, 2013) whereby the banks are not only responsible for making profits but also have a religious obligation to help society (Abdul Rahman *et al.*, 2010; Dusuki, 2008a; Maali *et al.*, 2006; Yusof & Bahari, 2011).

In a similar vein, the religious responsibility becomes a driver to engage in the CSR initiatives to improve the wellbeing of the Muslim community. The prior studies also suggest that the CSR engagement of companies in Muslim communities are tied to religious responsibilities (Dusuki & Abdullah, 2007a; Farook, 2007; Mohd Nor & Asutay, 2011) which are governed under the *Tawhid* and *Shariah* paradigm. However, in other religions such as Hinduism and Christianity, CSR engagements are also part of their moral and ethical values (moral motives) (Arevalo & Aravind, 2011; Davis, 1967). For instance, Arevalo and Aravind (2011) found that managers in Indian firms conducted the CSR activities in alignment with their company's ethical values (moral motives) as compared to the strategic or profit motives. Therefore, it can be suggested that the moral or religious values may drive the CSR engagement (Arevalo & Aravind, 2011; Jamali *et al.*, 2009).

In addition, the bank is very active in conducting the CSR activities during the month of *Ramadhan* (the fasting month) and *Syawwal* (celebration month of Muslims) and this is aligned with a study by Zulkifli and Amran (2006) which indicates that the CSR activities in Malaysia are highly related to the religious or ethnic festivals such as *Ramadhan* and *Aidilfitri* for the Muslims. For the Muslims, *Ramadhan* is an honorable and blessed month and the rewards for generosity are multiplied in it. The reward for a single good

deed is equivalent to 70 good deeds in the other months and the Prophet Muhammad (SAW) also encourages Muslims to conduct more good deeds during *Ramadhan* such as donations (*sadaqah*) and charity. The Prophet Muhammad said: "The best charity is that in *Ramadhan"* (At-Tirmizi).

Additionally, the Islamic banking industry is a highly competitive business environment and organizations such as the bank should conduct aggressively the CSR initiatives to gain a sustainable reputation and business mileage (Dusuki, 2008b). The bank's products and services may be tailored to the demands of various types of customers by having a good marketing strategy. The business environment particularly business competitions and risks can force the CSR engagement (Dusuki, 2008b; Khoo & Tan, 2002) in order for the organization to stay ahead. This strategy may be accomplished through the fulfillment of various stakeholders' aspirations. The demand of stakeholders like customers, employees, NGOs and the government on the CSR practices should be managed wisely to get their continuous support of the bank's products and services (Dusuki, 2008b; Saleh *et al.*, 2010; Thompson & Zakaria, 2004). Many researchers claim that the stakeholders especially shareholders, the government, employees, customers, and community show a positive attitude towards companies that engage in the CSR initiatives or can fulfill their expectations (Abd Rahim *et al.*, 2011; Amran & Devi, 2008; Cooke, 2010; Katamba *et al.*, 2012; Mohd Nor & Asutay, 2011; Yam & McGreal, 2010).

Normally, the social level of a community or a country may impact on the issues and level of CSR practices. For instance, consumers in a developed country are more focused on the issues related to the quality of services or products (Khoo & Tan, 2002) and their rights and power, while in the developing countries, consumers are still focused on

receiving the basic facilities and dealing with issues like child labor and forced labor (Panapanaan *et al.*, 2003). Community development is a shared responsibility between the governments, public and private companies. The companies may assist the government to provide the basic facilities as well as in the human capital development to enhance their quality of life. Hence, the companies may conduct long-term contribution programs to demonstrate their commitment to providing a better living of society. In order to encourage more companies in Malaysia to take part in the social development, the government may offer more incentives to companies like providing a tax rebate on the CSR expenses and introducing more awards to recognize their efforts to improve the wellbeing of society. Previous studies also suggest that rewards and awards may help to promote the CSR engagement among Malaysian companies (Amran & Siti Nabiha, 2009; Haniffa & Cooke, 2005).

Furthermore, the findings of this study indicate that the strategic collaboration with other parties in managing the CSR initiatives may influence the commitment of the bank to conduct more CSR programs with a high impact on the recipients. For instance, collaboration with universities and colleges in distributing the *zakat* fund may help to minimize the problem of selecting the eligible recipients among the students. The collaboration gives synergy to the both parties and opportunities to the bank to maintain a close relationship with its stakeholders. Previous studies also suggest that establishing collaboration with the third parties like other business partners (Porter & Kramer, 2002), NGOs (Harribey, 2011; Nijhof, Bruijn, & Honders, 2008), not-for-profit organizations (Cooke, 2010) and local communities (Callot, 2011) may provide greater value for the CSR engagement (McElhaney, 2009).

In addition, the CSR engagements are driven by the internal factors. For Bank Islam, the internal factors that may influence the CSR activities are: (i) the perceptions created by the name of the bank ("Bank Islam"); (ii) the nature of the business; (iii) rebranding of the bank in 2007; (iv) the commitment and involvement of the bank's staff members; (v) good relationship with internal stakeholders; (vi) values and attitude of the management team; and (vi) the size of the CSR fund. The bank is perceived as a charitable organization. To fulfill this expectation, the bank actively promotes the CSR practices and integrates its values into the business strategies, core competencies and day-to-day business operations.

The name of the bank and the nature of the business are among the significant factors to push the CSR engagement. Further, CSR is an integral part of an Islamic bank's operations because the objective of CSR engagements are aligned with the objectives of the bank's establishment which are to fulfill religious, social and economic obligations to the Muslim society (Dusuki, 2008a; Dusuki & Abdullah, 2007b; Farook, 2007; Sairally, 2013) to achieve the *maqasid Shariah* and *maslahah*. In addition, rebranding of the bank in 2007 helped to improve the CSR engagements at Bank Islam. The objectives of rebranding of the bank were: (i) to enhance the brand positioning through a new look logo, branch remodeling exercises, improved products and services and improved mind-set and working culture of the staff; (ii) to stay ahead in the Islamic banking and finance industry at the national and international level as a pioneer among fully-fledged *Shariah*-based banks; and (iii) to achieve the vision of the bank to be the global leader in Islamic banking (*Bank Islam embraces new corporate identity*, 2007).

Nearly all the respondents (especially the bank's officers) shared the view that the CSR engagements at the bank have been improved and succeeded due to the commitment and involvement of all members at the bank. Having a good relationship with internal stakeholders like employees and customers may help the bank to conduct more CSR initiatives. The involvement of staff in the CSR decision-making process may help to enhance their commitment and sense of ownership to the project as well as their support to the leaders of the project (Andrews, 1995). Hence, a successful CSR program needs high levels of involvement and commitment from all staff (Harribey, 2011; Katamba *et al.*, 2012; McElhaney, 2009; Middlemiss, 2003; Wood, 2007). Their support may be gained if companies establish a close relationship with their internal stakeholders like employees and customers. In this sense, the bank actively encourages its employees and customers to participate in the CSR initiatives such as the Home Projects, Reach Out activities and beach cleaning programs.

According to Maon *et al.* (2009), the critical success factors for CSR implementation are at the corporate level, organizational level and managerial level. Each level has its own strategies and activities such as creating awareness and participation, planning for strategic engagement and recognizing the role of leadership. Without cooperation and commitment, it may be difficult for an organization to conduct such activities. Energizing people to make the necessary commitment can be achieved by involving and rewarding them (Maignan *et al.*, 2005; Maon *et al.*, 2009; Werre, 2003) especially employees. The employees may be involved in and support the CSR initiatives inherently if they understand and are aware about the concept of CSR (Katamba *et al.*, 2012; Maignan *et al.*, 2005; Maon *et al.*, 2009). Educating them through workshops, seminars and

conferences related to CSR is an opportunity for employees to create personal awareness and share the issues and knowledge of CSR across the organization. Additionally, empowering the employees to implement their tasks in a way that they perceive as the most effective for themselves and for their organization may motivate them to learn, improve and develop (Khoo & Tan, 2002).

Moreover, the values and attitudes of the management team influence the CSR engagements of Bank Islam. Most of the members in the management team are aware and committed to engage in and support the CSR activities. Their personal values and leadership style encourage other employees at all levels to support strongly all the CSR events at the bank. Hence, their values and attitudes may also be embedded in the bank's values and norms towards CSR practices automatically (Maon *et al.*, 2009; Werre, 2003). From the Islamic perspective, the managers must have good personality traits such as capability and honesty (Quran 12:54–56) and adhere to all Islamic principles and ethical values (Al Arussi *et al.*, 2009) to contribute to the survival of the business in the competitive environment (Salleh, 2001). Reave (2005) also states that religious belief may also influence the personal values and leadership practices of managers. Hence, the Muslim managers must have good knowledge and competence in banking as well as the *Shariah* especially the *fiqh al-muamalat* (Haniffa & Hudaib, 2007) and high standards of good behavior (Muwazir *et al.*, 2006) to conduct the business for the sake of Allah's blessings. The organization should give opportunities to Muslim executives, managers and employees to educate themselves about the CSR principles by integrating the *Shariah* dimensions in order to practice CSR more effectively and efficiently (Dusuki & Abdullah, 2007a).

Furthermore, Bank Islam has the capability in the form of funds (economies of scale) and human resources to conduct the CSR activities as compared to individuals and charitable organizations which have limited resources (Farook, 2007). Thus, the bank should establish strong financial sources to conduct more CSR initiatives. For instance, the bank has created a long-term budget for the CSR fund through the BICC scheme whereby 0.3% of the credit card retail transactions is allocated to the CSR fund during *Ramadhan*. Long-term budget planning ensures organizations can pursue their social commitments as planned (Morris & Biederman, 1985). These findings are supported by the previous studies indicating that the CSR engagements need a strong financial commitment (Katamba *et al.*, 2012; McGuire *et al.*, 1988; Virakul *et al.*, 2009). It appears that, in developing countries, there are similar factors that influence the CSR engagement such as: the need to fulfill the stakeholders' expectations and aspirations, the involvement of staff in the CSR activities, the organization's leadership, and the availability of the necessary resources (financial and human) (Arevalo & Aravind, 2011; Jamali & Mirshak, 2007; Katamba *et al.*, 2012; Mahalingam, 2009; Virakul *et al.*, 2009; Yam & McGreal, 2010).

7.5   Benefits of CSR Engagement

The ultimate goal of Muslim business players in conducting the business is to get Allah's blessing in all aspects of their operations particularly through the modest contribution like engaging in the CSR initiatives. To get the reward from God, they have to ensure that all activities comply with the Islamic values and principles to show the obedience to Allah (SWT). Allah mentions in *Surah Al-A'raf*, verse 96: and *Surah al-Talaq*, verse 3:

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> If the people of the towns had but believed and feared Allah, We should indeed have opened out to them [all kinds of] blessings from heaven and earth; but they rejected [the truth] and We brought them to book for their misdeeds.
>
> (Quran 7:96)

> And He provides for him from [sources] he never could imagine. And if anyone puts his trust in Allah, sufficient is [Allah] for him. For Allah will surely accomplish His purpose: verily, for all things has Allah appointed a due proportion.
>
> (Quran 65:3)

Therefore, engaging in the CSR initiatives should be practiced naturally and voluntarily by all Muslim business players to get a good reward from Allah. That is the beauty of the Islamic perspective on CSR, where the benefits of CSR are not only for the purpose of business sustainability (economic, legal and ethical perspectives) but also encompass spiritual elements which cover the rewards in this life and the Hereafter. The concept of reward and punishment in Islam is explained in the following *Hadith*:

> Allah has written down the good deeds and the bad ones." Then He explained it [by saying that] "he who has intended a good deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down with Himself as from ten good deeds to seven hundred times, or many times over. But if he has intended a bad deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down as one bad deed.
>
> (Bukhari and Muslim)

Thus, all of the human actions and deeds (good and bad) in this life will be accounted for on the Day of Judgment. Further, the benefits of CSR from the Islamic perspectives cover the spiritual and material aspects of life such as receiving *barakah* and *al-falah*, promoting socio-economic justice to the stakeholders including society and the environment as well as sustaining the continuity of the business. The next section discusses the material benefits of CSR to the society and the business.

7.5.1   CSR Strengthens Relationships with Various Stakeholders

For Bank Islam, the CSR initiatives may help to strengthen relationships with various stakeholders such as the employees, government agencies, customers and community surrounding the business. By creating and maintaining a close relationship with these parties, the bank is moving forward to retain its competitive advantage (Amran & Siti Nabiha, 2009; Dusuki & Abdullah, 2007a; McPeak & Tooley, 2008) through stakeholder engagement (Maignan *et al.*, 2005; Middlemiss, 2003). For instance, the bank considers its employees as valuable assets and all employees' concerns are taken care of such as their wages and compensation, health and welfare, training and career development, and organizing religious talks during the lunch breaks. The bank believes that if the employees' issues are addressed, their satisfaction, motivation, loyalty, and job quality may be enhanced. Further, this commitment may attract highly talented staff to work with the bank.

Additionally, the coverage of recipients is wide including rural areas in several states in Peninsular Malaysia and Sabah. The wide coverage of CSR programs is related to the concept of fairness and justice to all stakeholders. By conducting more CSR programs in the local community, the bank may help the government to improve the wellbeing of society and in the long run can help to reduce the poverty rate in Malaysia. For the recipients of the program, this noble effort is beyond their expectations; the respondents in this study urged the bank to continue its CSR programs for the benefit of the community's development.

This argument is supported by the literature which points out that CSR programs may lead to strengthened relationships between companies and their relevant stakeholders (Knox & Maklan, 2004). CSR initiatives are conducted for the benefit of employees such as the recruitment of highly talented workers, improving their motivation and satisfaction (Cooke, 2010; Maignan *et al.*, 2005; McElhaney, 2009; Middlemiss, 2003; Thorne *et al.*, 2008; Werre, 2003) and may also lead to improving the employees' behaviors regarding other stakeholders' concerns and to become more responsible in their jobs (Knox & Maklan, 2004).

7.5.2 CSR Offers Positive Effects to the Bank

Indirectly, if the bank engages in the CSR activities, it may offer a positive effect to the bank by promoting Islamic banking finance and service. The staff members of Bank Islam strongly believe that the CSR engagement helps to portray a good image of the bank. As an Islamic business entity, the bank has a responsibility and accountability to help society and some people perceive that the bank has a social face. As such, the bank may engage in CSR activities to reflect its role in developing Muslim society. In support of this argument, prior studies also claim that CSR has a role in enhancing reputation or as a brand proposition (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Arshad *et al.*, 2012; Cooke, 2010; Dusuki & Abdullah, 2007a; Haniffa & Cooke, 2005; Hidayati, 2011; Hine & Preuss, 2009; Maignan *et al.*, 2005; Middlemiss, 2003; Saleh *et al.*, 2010; Zulkifli & Amran, 2006).

CSR activities can help the bank to enhance the image of Islamic banking not only among Muslims but also among non-Muslims. For instance, the bank may be involved in conducting the CSR events such as mosque renovations and rehabilitation in rural areas

to demonstrate its commitment to be a good corporate citizen to the Muslim community. On the other hand, the bank may conduct talks with members of the local community to improve their understanding of Islamic banking products and services or the danger of *riba* (interest).

7.6   Challenges in CSR Engagement

The challenges in the CSR engagements of Bank Islam are derived from the internal organizational factors such as limited internal (financial and human) resources to conduct the program. The bank must carefully manage its resources by designing good CSR programs with high impact to fulfill all stakeholders' aspirations. The stakeholders believe the business entities have a good capability in terms of resources (economic and human resources) to conduct social activities (Davis, 1967). The bank needs to identify the main stakeholders and their issues in order to minimize the risk of conflicts of interest and should regularly update its CSR activities to improve the stakeholders' awareness. In addition, some of the staff consider that participating in CSR activities is not part of their job description (i.e. CSR activities are performed on a voluntary basis) (Parvez & Ahmed, 2004) and they avoid supporting this kind of activity because they do not have the capability to handle social activities (Davis, 1967). Hence, the lack of organizational commitment becomes a major challenge to companies to engage in the CSR initiatives (Middlemiss, 2003; Mohd Nor & Asutay, 2011).

Another key challenge in the CSR practices is the process of managing the CSR programs. The programs must be designed, implemented and monitored carefully, particularly in determining the recipients of the programs. During the implementation, the commitment and involvement of all members of the bank especially the members of the

top management team are important to ensure the success of the program. Hence, the CSR culture, knowledge and awareness must be inculcated inside the organization before the message of CSR can be taken to the public. Further, in the joint venture program, the bank must establish a good monitoring mechanism to ensure the funds given are not misused for other purposes and that the funds are managed in accordance with the guidelines provided.

Several studies claim that the challenges to companies in developing countries to engage in CSR initiatives include: (i) the lack of resources (such as human resources, particularly training opportunities to understand CSR and the lack of CSR experts, as well as financial resources); and (ii) the difficulty in managing the activities especially in implementing (insufficient training, skills and knowledge on CSR implementation) and evaluating (Arevalo & Aravind, 2011; Katamba *et al.*, 2012; Virakul *et al.*, 2009). In the Malaysian context, financial and organizational constraints are a significant challenge to companies to engage in the CSR initiatives (Hung *et al.*, 2010; Ramasamy & Hung, 2004; Siwar & Hossain, 2009). Therefore, this study proposes that the CSR engagement needs a strong support from internal resources, especially the financial capabilities and involvement from all members of the company, to ensure the objectives of CSR are achieved.

The bank should also pay attention to dealing with the negative CSR or corporate social irresponsibility particularly the complaints from the customers. Several initiatives have been designed to address this, such as: (i) establishing the Customer Care Unit; (ii) conducting the Annual Customer Satisfaction Index survey; (iii) having the Brand Audit Exercise 2010; and (iv) establishing the Customer Satisfaction Self-Assessment (Bank

Islam Annual Report 2010). All of these complaints need to be properly managed due to the power of customers to communicate the bad experiences to other stakeholders which may lead to negative impacts on the business performance, the confidence of customers (Wood, 2010) and also the image of the bank.

7.7 CSR Management Process

There are several phases in managing the CSR initiatives such as the environmental scanning, designing, implementing and evaluating. All of these phases are considered in this study's proposed managerial guideline as shown in Figure 7.1 on the CSR engagements. In this study, the CSR engagement is considered as part of the religious, social and economic responsibilities and accountabilities of companies to maintain a good relationship with Allah and other stakeholders including human beings and the environment. Further, the CSR initiatives should be designed and implemented carefully to provide high impacts on the recipients as well as on the business performance. All of these initiatives also need to adhere to all *Shariah* guidelines and principles in order to fulfill the Islamic religious aspirations and the *Shariah* objectives (*maqasid al Shariah*) (Dusuki & Abdullah, 2007a) which promote the social responsibility and justice (Sulaiman, 2000).

7.7.1 Environmental Scanning

The purpose of conducting environmental scanning is to assess the external and internal organizational factors that are likely to influence the CSR initiatives. In order to manage the CSR initiatives in an effective and efficient way, these factors need to be examined carefully and continuously (Albright, 2004). Albright (2004) suggests that there are five basic steps in formal environmental scanning: (i) identifying the need to scan external

influences; (ii) identifying the sources (external and internal information sources) and how to retrieve the information; (iii) analyzing the information; (iv) communicating the results; and (v) making informed decisions. Therefore, Bank Islam may properly manage the external and internal factors that were discussed earlier and identify the sources of information to scan its business environment. However, these factors may change from time to time according to economic conditions and the socio-economic status of the country. The bank must respond to the changes pro-actively in order to stay ahead in the industry. To increase an organization's sensitivity to outside issues, Werre (2003) introduces two methods, which are the stakeholder dialogue and scenario analysis. The stakeholder dialogue may be conducted by organizing working groups with the interested stakeholders such as consumers, employees, shareholders, the local communities, representative of local councils and NGOs to understand their issues (Werre, 2003).

In the scenario analysis method, the organization needs to identify and prioritize the trends (driving forces) that shape the future and from that a small number of scenarios can be formulated (Werre, 2003). Malaysian business practices are influenced by socio-cultural factors. The socio-cultural elements involve the beliefs or religions, attitudes, customs, values and norms of society in which the organization operates. It is strongly believed by many studies (e.g. (Dusuki & Yusof, 2008; Saleh *et al.*, 2010; Zulkifi & Amran, 2006) that such factors influence the CSR practices. Hence, in designing the CSR initiatives, organizations must be aware of the sensitivity of Malaysia's pluralistic community especially the Muslim community because in the Islamic faiths, there is a boundary between the permissible (*halal*) and the prohibited (*haram*).

7.7.2 Managing Stakeholders and Their Issues

In managing the stakeholders' expectations or aspirations, the bank should establish a good relationship with its stakeholders (stakeholder engagement). Good CSR management also needs an effective stakeholder management by fulfilling their various expectations. Furthermore, it is important to align the stakeholders' expectations with the business strategy in order to respond to changes in the business environment through the CSR initiatives (Arshad *et al.*, 2012; Dawkins & Lewis, 2003; Reeve, 2004). In this regard, the findings of this study indicate that the bank acknowledges the importance of the stakeholders and their aspirations. This stakeholder engagement may influence the design of business strategies through the CSR engagement for the sake of the stakeholders as well as for the business sustainability. Thus, in this study, stakeholders and their issues are discussed based on their level of *maslahah* (*dharuriyyat, hajiyyat* and *tahsiniyyat)*. Table 7.3 states the stakeholders, their issues and strategies of the bank to improve the stakeholder engagement.

Table 7.3
Stakeholders, Their Issues and Strategies of Stakeholder Engagement

Stakeholders	Issues	Strategy
Loan borrowers	Low financing rate and reasonable charge *(hajiyyat)*	Offer a plenty of financing schemes to cater the financial needs of various type of stakeholders such as government officers and new graduates students
Depositors	High profit-sharing rate and reasonable charge *(hajiyyat)*	Provide creative and innovative Islamic financial products such as *Al-Awfar*, *Al-Awfar* Junior, *Wadiah* and *Mudharabah* saving accounts
Shareholders	High return on investment *(hajiyyat)*	Provide a reasonable and sustainable return to meet the shareholders' expectations

Table 7.3 (continued)

Stakeholders	Issues	Strategy
Employees	Welfare and moral support *(dharuriyyat, hajiyyat* and *tahsiniyyat)*	Establish the *Kelab Kebajikan Bank Islam*
	Fair wages and compensation *(dharuriyyat and hajiyyat)*	Establish a good service scheme - well compensated (under the Human Resource Department)
	Training and career development *(hajiyyat)*	Attending courses and seminar as part of KPI measurement - compulsory
	Improving skills and educational level *(tahsiniyyat)*	Allow them to further study (sponsor their educational fee)
	Conducive working environment *(dharuriyyat, hajiyyat* and *tahsiniyyat)*	Flexible working hours during *Ramadhan* Provide good facilities at the office (prayer room, parking space and food court)
	Spiritual/moral activities *(dharuriyyat and hajiyyat*	Organizing "*ceramah agama and fardhu ain classes'*
Government/ government agencies	Help the government to reduce poverty rate *hajiyyat* and *tahsiniyyat)*	Collaborate with the government agencies to improve the wellbeing of society (e.g.*ManJadda Wajada*)
Community	Providing basic facilities to the poor and underprivileged *(hajiyyat)*	Re-build and rehabilitation of homes
	Improved the educational level *(hajiyyat* and *tahsiniyyat)*	Involve in the PINTAR program
Regulatory bodies	Conduct the business in accordance to the *Shariah* principles *(hajiyyat)*	Role and responsibilities of the *Shariah* Supervisory Council, *Shariah* Review Committee and *Shariah* Division.
	Follow the CSR framework *(hajiyyat* and *tahsiniyyat)*	Adhere to the Silver Book
Potential investors	Transparency and fair view in disclosure and reporting *(hajiyyat* and *tahsiniyyat)*	Adhere to all reporting guidelines and standards.
	Looking for ethical and responsible banker *(hajiyyat* and *tahsiniyyat)*	Conduct the business in accordance with the *Shariah* principles
Environmental	Improve environmental awareness *(hajiyyat* and *tahsiniyyat)*	Conduct more environmental projects to preserve and conserve the environment

For Bank Islam, the key stakeholders are the society, shareholders, employees, customers/depositors and also the environment. Each group of stakeholders has its own preferences and intrinsic values which need to be satisfied at a minimum (Beekun & Badawi, 2005; Carroll, 1989; Maon *et al.*, 2009) based on the nature and location of an organization (Hond, Bakker, & Neergaard, 2007). In addition, there are various ways to get the input from the stakeholders such as by conducting the stakeholder dialogue, panel discussions or interview sessions with the stakeholders (Maignan *et al.*, 2005). During the stakeholder dialogue, the stakeholders can express their views about the CSR issues and managers can gain important information and feedback that is relevant for the organization. Muslim stakeholders may have different preferences and values in accordance with the *maqasid al-Shariah* and *maslahah* (Dusuki & Abdullah, 2007a) and also the Islamic moral code (Beekun, 1997). For instance, Muslim shareholders may be concerned about where the money is invested. The issue here is not only the profitable investment but, more importantly, whether or not the investment is *Shariah*-compliant. Additionally, employees should also be treated fairly in terms of wages and compensation, performance evaluation and opportunities to enhance their knowledge and skills through training and formal education development (Beekun & Badawi, 2005; Muhamad, 2007; Sadeq, 2001).

7.7.3 Designing CSR Initiatives

In conducting the CSR initiatives, the bank focuses on four pillars: (1) workplace/employees; (2) the marketplace; (3) communities; and (4) the environment. These dimensions cover a range of stakeholders and their issues, such as customers' and depositors' concerns about the marketplace, employees' benefits in the workplace,

environmental issues in the environment, and societal development and welfare in the community. However, as an Islamic business entity, the bank should consider another dimension which is the religious obligation to discharge its religious responsibilities and accountabilities in order to attain *al-falah* and *barakah*. Therefore, this study proposes that the bank should conduct religious talks and seminars on Islamic teaching as well as Islamic banking and finance in order to improve Muslims' understanding of Islamic values. Further, the bank should offer various Islamic banking and finance products and services that are affordable in order to attract more Muslims and non-Muslims to become customers of the bank.

Bank Islam has become very creative in designing the CSR initiatives and many improvements have been made over time including the approaches, management process of the program as well as the program itself. For instance, the bank forms strategic alliances with third parties in determining the recipients of the *zakat* fund and employs a niche strategy in positioning such activities. Furthermore, the bank places more priority on community projects because these cover a wide spectrum including the educational program, welfare of senior citizens, orphanages, single parents and the homeless, building new homes for the underprivileged and supporting health services. Recently, the bank has preferred to combine two or more pillars in one CSR program in order to maximize the impact. Table 7.4 states some of the projects that combine two pillars or more in one CSR program.

Table 7.4
Combining Two Pillars and More in One CSR Program

CSR programs	CSR pillars
Home project at Pokok Sena, Kedah	Marketplace and community
Home project at Kulim, Kedah	Marketplace and community
Beach Cleanup at Dungun, Terengganu	Workplace, community and environment
Coral Reef Conservation Seminar at Sekolah Menengah (Secondary School) Paka, Dungun, Terengganu	Workplace, community and environment
MasterCard Platinum Bank Islam-Alumni UiTM	Marketplace and community

7.7.4   Implementing CSR Initiatives

Since the first day of incorporation, the bank has engaged in a variety of CSR programs (see Appendix G for more details). The CSR initiatives at the bank are conducted by various departments (inter-departmental collaboration) and, for each program, the process of implementation is varied. Table 7.5 illustrates some of the processes in managing various CSR initiatives. Ideally, CSR implementation will receive the full support of all parties (inside and outside the organization), including the top management to approve the budget and activities, the employees to conduct the activities, and the recipients of the CSR initiatives. At Bank Islam, the CSR culture echoes from the highest level to the bottom, and most of the staff are willing to be involved in the CSR initiatives. The employees will be involved in and support the CSR initiatives inherently if they understand and are aware about the concept of CSR (Maignan *et al.*, 2005; Maon *et al.*, 2009).

Table 7.5
CSR Programs and Their Processes of Bank Islam

CSR initiatives / Fund	Responsible department	Process
Repair mosque (*zakat* fund)	*Shariah* Division	- Get application from the committee of the mosque - The letter of application should include the following information: - Background information of the mosque - Specific condition on the request matter (e.g. roof, wall, toilets) - Photos - Budget (requested amount) - The letter should be endorsed by the State Religious Council - Send the letter to the headquarters of Bank Islam (*Shariah* Division) - Site visit from the bank's officers (authentication) - The officers prepare a report - The decision is made by the Head of *Shariah* or the *Shariah* Review Committee or the *Zakat* Committee (based on the budget limit)
Further study (allocation from bank)	Human Resources Department	- Inform the Human Resources Department that he/she has enrolled in further studies - Based on the first semester result, apply for the scholarship - Recommendation of scholarship will be based on following conditions: - Part-time basis - The courses should be aligned with Islamic banking and finance - Certain specializations to improve the knowledge and skills in Islamic banking and finance
Mengubah Destini Anak Bangsa (scholarship fund)	Bank Islam and the UiTM	- Introducing the Platinum MasterCard Bank Islam-Alumni UiTM Card-I - The objective is to help the poor rural students to further their studies at a higher education institution - The students (after SPM) can apply to enroll into this program (six months learning program at the UiTM) - Part of the bank's CSR program as well as to help the UiTM to raise its scholarship fund (*Mengubah Destini Anak Bangsa*)

Table 7.3 (continued)

CSR initiatives / Fund	Responsible department	Process
Al-Qarimin fund (*zakat* fund)	*Shariah* Division	▪ Based on the application by customers ▪ Very selective and tied with procedures (case by case basis) ▪ For example: the customer borrows an amount of money from the bank and he is the breadwinner of the family and is involved in an accident and is not able to work anymore – the bank can use this fund to help that particular customer ▪ The fund was terminated in 2011
Distribution of *zakat* to school students (*zakat* fund)	*Shariah* Division and CR Department	▪ Poor and underprivileged students need to fill in the form ▪ The forms are available at the bank's branches ▪ Long waiting period – normally a year after the forms have been sent to the bank to get the result ▪ Receive a bulk of applications for every year ▪ If approved, the money (*zakat*) is credited to the student's account
Manjadda Wajada program (*zakat* and allocation of the bank)	CR Department	▪ Strategic alliance with *TV Al Hijrah* ▪ 3 to 4 staff from the nearest branch may help the CR Department staff ▪ The bank provides facilities and equipment to start the business (stall, machineries, etc.)
Madrasahku Syurgaku (*zakat* and allocation of the bank)	CR Department	▪ Alliance with the RTM, one slot amounted to RM50,000 ▪ The *tahfiz* (religious school) is located at Skudai, Johor and in a very poor condition ▪ The school needs financial support (high operational costs and the parents are not able to pay tuition fees)

From the findings, this study notes that the bank has conducted several joint venture CSR programs with external parties such as the UiTM to handle various CSR programs such as the "Mathematics Week", sponsoring innovation competitions like "The Invention, Innovation and Design Award 2010" and offering specific types of credit card to the

university alumni and staff to collect money for its "*Mengubah Destini Anak Bangsa*" (Fund To Change The Destiny of the Nation's Youth). This collaboration helps the bank to strengthen the relationship with its customers as well as to leverage its resources, competencies and networks to ensure significant impacts and benefits of the program. The argument is articulated by Jamali and Mirshak (2007) who point out that partnering in the conduct of CSR programs is important in order to enhance the management and the impact of the program. Such collaboration can be done with the key CSR stakeholders, local NGOs or other business partners (Jamali & Mirshak, 2007).

7.7.5 Evaluating CSR Initiatives

To improve the effectiveness of CSR initiatives, a good evaluation system should be established to gain a better understanding of the current CSR issues and identify any new issues. One way to evaluate the initiatives is getting the stakeholders' feedback (comments and suggestions). For instance, the feedback from the recipients of CSR initiatives is beneficial to measure the effectiveness of the program. Some of the respondents in this study also suggested improvements in CSR planning and implementing, such as conducting a long-term CSR program and having more CSR programs which involve stakeholders as participants. Furthermore, the organization should encourage the employees to give feedback or report any discrepancy in the CSR programs by providing mechanisms for feedback and "whistle-blowing" (Beekun, 1997).

Overall, all of these CSR initiatives need to be communicated and reported to the stakeholders to enhance their awareness. The next section will further discuss on how the bank communicates and reports its CSR initiatives.

7.7.6 CSR Communication and Reporting

In order to increase the awareness of CSR and the effectiveness of CSR programs, continuous communication and reporting of such initiatives should be considered as an important priority. This study documents that the CSR disclosure and reporting of Bank Islam show a positive improvement as compared to previous years to give assurance to all stakeholders that the bank is conducting its business ethically. For publication of Bank Islam Annual Report 2011, the bank was awarded the "Gold" for "Best Annual Report in Bahasa Malaysia" by the National Annual Corporate Report Awards (Bank Islam Annual Report 2012). Other than the annual reports, the bank uses various CSR communication channels such as the corporate website, corporate email, internal portal and newspapers to update the stakeholders on the CSR activities. However, the bank should determine carefully the most effective communication channels to communicate the CSR activities in order to tailor to the various expectations and information needs of different groups of stakeholders (Du *et al.*, 2010).

From the Islamic perspective, the objectives of communicating and reporting are to show the *Shariah* compliance has been fulfilled and to demonstrate the responsibility, accountability and transparency to maintain a good relationship with Allah (SWT), other human beings and the environment as well as to promote its corporate ethical identity (Haniffa & Hudaib, 2007). Pertaining to the *zakat* fund management, the bank provides a detailed report to all *zakat* authorities on the *zakat* distribution and updates the SSC regularly on the *zakat* fund management. Islam urges truthfulness in disclosing all information whether such information could give a good or bad image to the organizations (Maali *et al.*, 2006). The reasons for communicating and reporting the CSR

initiatives are to discharge its responsibility in distributing the *zakat* and to inculcate other organizations to follow the bank's practices. The concept of *Tawhid* and *Shariah* requires Islamic business entities to be transparent and give full disclosure on the business operations (e.g. Quran 2:42; 4:33; and 87:7). By sharing this practice, it may inculcate a sharing and caring culture in other companies and encourage them to be involved actively in activities to improve the society. Additionally, the bank should disclose information on the forms of social accountability (through CSR activities) and full disclosure (positive and negative impacts of the activities on the recipients). These two aspects can assist Muslim users to evaluate the business activities and performance for decision-making (Muwazir *et al.*, 2006; Othman & Thani, 2010).

In this sense, the Corporate Communications Department should coordinate all information that may be released to the public and manage all the CSR communication channels of the bank. These channels may include: (i) the annual reports (with a separate section on CSR reporting); (ii) press releases on the CSR activities; (iii) the corporate website (dedicated section on the CSR engagements); and (iv) other alternative channels such as TV commercials, magazines, newspapers, billboard advertising and flyers to improve the stakeholders' awareness on the activities. A few respondents claimed that communicating the CSR initiatives in the media is among the most effective communication tools to convey the message to the public. Katamba *et al.* (2012) suggest that the press release or media coverage can improve stakeholders' awareness about a company's CSR activities. The bank also refers to the Silver Book guideline for CSR reporting and has established a Reporting Unit to produce an informative and attractive annual report.

In addition, Bank Islam acknowledges the role of creating and maintaining a good relationship with the media in order to provide support and synergy to the CSR management process of the bank. This close relationship leads to positive media coverage (Waddock, 2009) and the media should act as a responsible public auditor and independent watchdog to promote the CSR engagement (Middlemiss, 2003). Conversely, over-publicizing the social activities also gives the wrong message (Jamali & Mirshak, 2007; Morris & Biederman, 1985) to the public about the objectives of CSR engagement. Hence, the findings of this study are aligned with the literature which suggests that corporate communications teams should have a good relationship with the media in order to get the positive stories released (Du *et al.*, 2010) and work together with the investor relation units to produce annual reports (Waddock, 2009). These efforts are designed to enhance awareness of an organization's CSR initiatives (Maignan *et al.*, 2005; Werre, 2003) and to enhance the organization's image in the eyes of the public (Du *et al.*, 2010).

In order to design an effective communication framework, Du, Bhattacharya and Sen (2010) suggest that the content of the message should highlight the importance of the social issue that needs to be addressed, the commitment of the company to conduct the programs, the impacts of the activities on the recipients, and the alignment of the social issue with the company's core business. In this sense, the findings of this study show that the bank provides meaningful message content in its CSR disclosure. For instance:

> Bank Islam has always maintained the CR is more than an ideology. We see it as a business of the future. Our CR initiatives are not random acts of kindness but closely follow Islamic jurisprudence [Fiqh] and are part and parcel of our business practice. The Bank sees its business and CR services as two sides of the same coin.
>
> (Bank Islam Annual Report 2011, p. 169)

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Hence, the bank emphasizes that its CSR engagements are important to discharge its religious, social and economic responsibilities to the stakeholders. Further, the bank also considers CSR as part of its business agenda which needs to be aligned with the core business strategy. Other examples of the CSR disclosure of the bank:

> In the year under review Bank Islam strengthened its flagship CR programme with a direct investment of close to RM800,000 into its Projek Bantuan Rumah (Housing Aids Project). This programme was designed to not only provide a roof over the heads of the poor and destitute, but to enrich and empower the community by providing opportunities for local contractors, material suppliers and local skilled and semi-skilled villagers. In 2011, this innovative programme directly impacted the lives in 40 households, with homes being renovated or re-build.
>
> (Bank Islam Annual Report 2011, p. 169)
>
> … The Bank has, since 2008 built 30 houses in Kelantan, 37 in Terengganu, 30 in Kedah, and 25 in Pahang. In 2011, Projek Bantuan Rumah was extended to communities in Sabah and Sarawak as well.
>
> Going forward, Bank Islam is set to grow and strengthen this programme further and intensify community and staff participation, 2012 will see the Projek Bantuan Rumah making a huge impact in Pahang.
>
> (Bank Islam Annual Report 2011, p. 170)

From the above statement, the bank indicates three aspects of commitment as discussed by Du, Bhattacharya and Sen (2010): (i) substantial amount of input (direct investment of close to RM800,000); (ii) durability of the association (since 2008); and (iii) consistency of support (growing and strengthening the CSR programs). The bank prescribes clearly the objectives and the impacts of the programs towards the recipients and also to the community surrounding the project. Hence, the study states that the CSR communication of the bank has shown a dramatic improvement over the past few years especially regarding the content of the messages on the CSR activities.

7.7.7   Proposed Managerial Guideline on CSR Management Process

Based on the findings and previous discussions, this study proposes a managerial guideline on the CSR management process from the Islamic perspective. This framework integrates the commitment of religious responsibility in accordance with the *Tawhid* and *Shariah* and other derivatives concepts such as *maqasid Shariah*, *maslahah* and accountability (*masuliyyah*) in designing and implementing CSR as well as incorporating other existing models (Castka *et al.*, 2004; Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Thorne *et al.*, 2008; Werre, 2003). Table 7.6 summarizes the comparison of prior CSR framework with the current proposed guideline. Malaysian CSR experts claim that companies in Malaysia need a national CSR guideline to improve their understanding and practices on CSR (Lu & Castka, 2009). It is hoped that the guideline proposed in this study may serve many companies because, as compared to prior frameworks on CSR management, the proposed guideline gives a high priority to aspirations of the various stakeholders (internal and external stakeholders) in designing and implementing the CSR initiatives to enhance their awareness and engagement.

In addition, the proposed guideline may enrich the existing body of CSR knowledge by providing an in-depth understanding of how a good CSR initiative is planned and implemented. This guideline was reviewed by three respondents (Respondent 9, Respondent 16 and Respondent 28) and two accounting professors (during a conference presentation) to get their views and suggestions. Several amendments were made to the initial guideline to reflect their comments and recommendations as well as to improve the guideline.

Table 7.6
Comparison of Prior Frameworks with the Current Proposed Guideline

Dimensions	Prior frameworks	Current proposed guideline
Contextual setting	Develop countries (Castka *et al.*, 2004; Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Thorne *et al.*, 2008; Werre, 2003)	Developing country - Malaysia
CSR conception	Universal concept of CSR (Castka *et al.*, 2004; Maignan *et al.*, 2005; Maon *et al.*, 2009; Panapanaan *et al.*, 2003; Thorne *et al.*, 2008; Werre, 2003)	Islamic perspective on CSR based on the *Tawhid* and *Shariah* paradigm and other derivatives concepts such as maqasid *Shariah*, *maslahah ammah* and accountability (*masuliyyah*) (Darus *et al.*, 2013; Dusuki & Abdullah, 2007a; Haniffa & Hudaib, 2002; Muwazir *et al.*, 2006)
CSR awareness and acceptance	Well-established and proactively engaged in CSR practices (Panapanaan *et al.*, 2003)	CSR awareness in Malaysia is still low but shows a positive movement in practicing CSR (Lu & Castka, 2009) (Zulkifli & Amran, 2006)
Focus area	• Marketing orientation (Maignan *et al.*, 2005) • Stakeholder perspective (Thorne *et al.*, 2008) • Integrate CSR into ISO management systems (Castka *et al.*, 2004)	CSR as a DNA of company and part of business strategy
Research design	• Interview only senior managers (Maon *et al.*, 2009) and top managers and executives (Panapanaan *et al.*, 2003) • Direct participation, observation techniques and discussion forum (Castka *et al.*, 2004)	• Wide coverage of interviewees (management team, operational officers/staff and recipients of the CSR initiatives) • in-filed observation and documentation analysis

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The final draft of the guideline as shown in Figure 7.1 comprises four phases: environmental scanning, design, implementation, and control and evaluation. The four phases incorporate ten steps: (1) assessing external factors; (2) discovering organizational conditions/norms/values; (3) identifying stakeholders and their issues; (4) conforming with the *Shariah* principles; (5) determining the organization's CSR framework/policies; (6) assessing current practices; (7) setting the objectives, strategies and policies of CSR initiatives; (8) implementing CSR initiatives with accordance with the *Shariah* principles; (9) monitoring and gaining stakeholders' feedback on CSR initiatives; and (10) measuring CSR initiatives.

The guideline is applicable to other *Shariah*-compliant organizations because all the steps in the process are based on a consideration of the *Shariah* principles and guidelines. However, if other non-*Shariah* compliant companies want to employ this guideline, they should omit and modify Step 4 (conforming with the *Shariah* principles and guidelines) and Step 8 (implementing CSR initiatives in accordance with the *Shariah* principles). The other steps are applicable to all types of companies that aim to manage their CSR initiatives systematically. Furthermore, the guideline is also suitable to companies that have a good CSR policy but are experiencing difficulties in implementing, monitoring and evaluating these initiatives.

Figure 7.1
Proposed Managerial Guideline on CSR Management Process from Islamic Perspective

7.7.7.1   Environmental scanning

Step 1: Assessing external factors

The purpose of this initial step is to assess the external or outside organizational factors that are likely to influence the CSR initiatives. The external drivers are not controlled by the organization, and the signals from outside are important to alert the top management about the main issues and trends that the organization faces (Werre, 2003). To assess the external factors in a systematic way, several technique can be employed such as the PEST analysis, SWOT analysis and environmental scanning technique (Albright, 2004).

Step 2: Discovering organizational norms, values and conditions (internal factors)

In this step, the organization may need to understand its internal factors such as the corporate culture and values, corporate governance, and internal capabilities or resources such as financial and human capital, skills, technology and knowledge before designing the CSR initiatives. The CSR engagement needs strong financial support and the involvement of all staff to ensure the sustainability of the programs. For Islamic business entities, it is necessary that they ensure all the business activities and social commitments are in accordance with the *Shariah* principles.

Step 3: Identifying stakeholders and their issues

The process of identifying stakeholders and their issues needs to be conducted carefully. In conducting the process of selecting the recipients, the bank may establish a strategic collaboration with the relevant parties such as the State Religious Council, the federal and state government agencies as well as the local communities to avoid conflicts of interest.

This collaboration may help to enhance the relationships between the parties as well as to encourage their involvement in the social activities (Gray, 1989).

Step 4: Conforming with the *Shariah* principles

Islam prescribes social responsibility as a religious bond which requires Muslims to balance their rights and responsibilities towards society as stipulated by the *Shariah* (Dusuki, 2008b). In designing and implementing the CSR initiatives, all Muslim business entities should follow and conform with all the *Shariah* principles and guidelines such as the *Shariah* Governance Framework, the internal *Shariah* guidelines and procedures and also conduct the *Shariah* audit.

7.7.7.2   Designing phase

Step 5: Determining the organization's CSR policies

In designing a CSR policy, the organization may consider CSR as part of its commitment and embed it naturally in its business strategy and culture. This natural alignment may help the organization to discharge its religious, social and economic responsibilities and accountabilities to get Allah's blessing as well as to improve the quality of life among Muslims.

Step 6: Assessing current practices

Before any project (a new or existing project) is conducted, the current practices of CSR activities need to be examined for possible improvements. Among the aspects that may need to be revised are the objectives, strategies or approaches, target groups, content and impacts of the program. This assessment may be done by conducting post-mortem

meetings of the previous CSR program or benchmarking the current CSR practices. The benchmarking of the current CSR practices may be done through identifying the best performers or champions of the CSR practices (Maon *et al.*, 2009) and then using their norms and standards as a means to compare the CSR performance and measure the gap. In addition, business networking may also offer learning from peers' processes and sharing the experience in conducting the CSR initiatives.

Step 7: Setting the objectives, strategies, and policies of CSR initiatives

In this step, all of the CSR planning may be translated into the specific objectives, strategies and policies in concrete CSR programs and actions. For each project, a comprehensive proposal paper is prepared for the authorities' approval as well as for the budget.

7.7.7.3   Implementing phase

Step 8: Implementing CSR initiatives in accordance with the *Shariah* principles

This is a critical step, where a comprehensive plan for the CSR initiative needs to be implemented. The commitment and involvement of all parties (internal and external parties) are needed to ensure the program will be conducted successfully. Additionally, the bank also must ensure that all its CSR initiatives are in accordance with the *Shariah* guidelines and principles. Again, in the Islamic view, the process of CSR implementation should be conducted in a proper way as guided in the *Shariah* and managers should be involved in the whole process (Beekun, 1997). The program should be conducted in moderation (*wasatiyyah*) and discourage waste (Quran 7:31) and should avoid

involvement in prohibited matters (alcohol, drugs and gambling). The program should also provide a meaningful impact on the recipients or society.

7.7.7.4 Control and evaluation phase

<u>Step 9: Monitoring and gaining stakeholders' feedback on CSR initiatives</u>

Monitoring and evaluating the CSR initiatives is based on verifying and reporting. According to Maon *et al.* (2009), the objectives of evaluation are to: (1) determine what works well and why, and how to ensure it can be sustained; (2) investigate what is not working well and why and how to avoid it; (3) explore barriers to success and ways to overcome them; and (4) revise original goals or create a new goal if necessary. Alternatively, the *Shariah* audit can be conducted to provide an independent assessment and objective assurance designed to add value and improve on the *Shariah* compliance (Bank Negara Malaysia, 2010). Islam also encourages Islamic organizations to undergo continuous improvement through the evaluation process (Dusuki & Abdullah, 2007a). Moreover, the organization may consult and discuss with the external CSR consultants to get their views on possible improvements and also formulating a clear performance metrics or KPI for each event (McElhaney, 2009).

Furthermore, communication is a means to gain the stakeholders' feedback (comments and suggestions). The stakeholders are encouraged to be involved actively in the CSR practices by volunteering their participation or by giving feedback. This process may help to gain a better understanding of the current CSR issues and identify any new CSR-related issues. Moreover, the feedback from the recipients of CSR initiatives is also important to measure and evaluate the effectiveness of the program.

This is an additional step that needs to be addressed by all organizations that engage in CSR practices. Measuring CSR is a very challenging task ("The market for virtue," 2006) and some companies struggle to select appropriate CSR evaluation methods (Virakul *et al.*, 2009). A good measurement tool needs to be established to evaluate the impact of the program on the recipients as well as on the organization. Middlemiss (2003) suggests that the impacts of CSR practices can be measured through a few mechanisms, namely: (i) stakeholder surveys; (ii) independent social or environmental auditing; (iii) internal social or environmental auditing; (iv) media evaluation; (v) indices (such as the DJ sustainability index or the FTSE4 good); (vi) awards; and (vii) financial measurements.

In general, the proposed guideline affirms that the CSR management process is a unique process and different companies may practice different CSR strategies and approaches (Argandona & Hoivik, 2009; Hanke & Stark, 2009). According to Argandona and Hoivik (2009) "there is no set of universal 'best practices' in CSR" (p. 229). This phenomenon is explained by the internal and external factors that may influence the bank's CSR engagements.

7.8 Trends and Future Directions in CSR Engagements

The evolution of CSR engagements at Bank Islam has occurred at a number of points in time: (i) rebranding of the bank in August 2007 (this was a unison view amongst all the respondents, especially the bank's officers); (ii) being a GLC (after acquisition of the bank's shares by the Tabung Haji); (iii) being guided by the Khazanah Nasional Berhad on how to conduct CSR activities; (iv) establishment of the CR Department; and (v)

introduction of the Silver Book guidelines into the bank. Read-Brown, Bardy and Lewis (2010) claim that the CSR engagements among Malaysian companies especially the publicly-listed companies and GLCs have improved since the introduction of the Silver Book guidelines and the Bursa Malaysia CSR Framework.

Thus, the CSR engagements at the bank have improved significantly in several aspects such as the CSR program itself, CSR philosophy and CSR management particularly in the design and implementation of the programs, involvement of top management and also the participation of all members. For instance, previously, the bank appointed the state government to become a partner in a joint venture program with the PROKHAS (with minimal involvement from the staff of the bank) to manage the Home Project. After experiencing a number of problems such as the time constraints, poor implementing and monitoring, the bank decided to conduct the program by itself (with the involvement of local branches) and not to outsource the program in total to the third parties.

Moreover, the integration or cooperation of several departments in conducting the initiatives were not practiced to a higher extent. Most of the activities are done by the CR Department and not considered as the bank's event. Now, several departments such as the Corporate Communications, the *Shariah* Division, the Cash Management Division and the branches may cooperate to manage the program. Hence, the CSR activities of the bank show a positive improvement to become more structured and well planned.

This finding contradicts the prior literature on the CSR engagements in Malaysian companies (Ang, 2010) and companies in other developing countries like Lebanon (Jamali & Mirshak, 2007; Jamali *et al.*, 2009) which claim that the CSR activities in the developing countries lack a systematic approach (ad-hoc basis) and are not integrated as a business strategy. For instance, the engagements are still associated as philanthropic or discretionary types of activities and are not organized in strategic and innovative ways (Ang, 2010; Jamali & Mirshak, 2007; Katamba *et al.*, 2012; Lu & Castka, 2009; Mohd Ghazali, 2007; Ramasamy & Hung, 2004; Shareef *et al.*, 2014). In this sense, it may be suggested that the different cultural contexts, nature of the business and the level of CSR awareness may influence such practices.

Furthermore, the finding of this study reveals that the CSR awareness in Bank Islam has increased: "Now, everybody starts talking on CSR and CSR is not an exclusive issue anymore… becomes universal topic to be discussed about at Bank Islam" (Respondent 19). The bank is promoting such practices aggressively as part of its business agenda. This view was shared by Respondent 22: "So, our CSR… not so active at early stage… just in small scale and we more on the *zakat* distribution. But now, 3 to 5 years back… after rebranding, we can see that the CSR is really worked at the bank" (Respondent 22). Respondent 24 also claimed that the CSR initiatives among the employees had also improved significantly as part of the bank's strategy to become a good corporate citizen.

This finding may suggest that many organizations in Malaysia today are showing positive attitudes in the CSR practices even though the level of CSR awareness is still low (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Lu & Castka, 2009; Ramasamy & Hung, 2004; Siwar & Hossain, 2009; Zulkifli & Amran, 2006). Conversely, studies by Lo

and Yap (2011) and Muwazir *et al.* (2012) show that Malaysian companies are aware of the importance of CSR as part of the business agenda and participate actively in such activities to respond to the legislation on CSR and to improve the wellbeing of society.

In addition, CSR communication by Bank Islam also shows a dramatic improvement especially in the CSR reporting in the annual reports. This change occurred after several initiatives were introduced or employed such as the adaptation of Silver Book guideline, establishing a separate unit (Reporting Unit) to produce attractive and comprehensive reporting of CSR. For example, starting from 2008, the annual reports of the bank have included a separate section on the CSR reporting while previously these initiatives were disclosed in the Chairman's Statement in the annual reports.

Further, from year to year the total number of pages dedicated to the CSR disclosure in the annual reports has significantly increased from only three (3) pages in the Bank Islam Annual Report 2008 to eighteen (18) pages in the Bank Islam Annual Report 2011. This strategy enhances the stakeholders' awareness of the bank's CSR engagement and demonstrates its commitment to be a responsible banker. To respond to the commitment, the bank plans to conduct various CSR programs and to reach as many recipients as possible all over Malaysia including in Sabah and Sarawak. Table 7.7 lists some of the future CSR programs of the bank and the objectives of the programs.

Table 7.7
Future CSR Programs and the Objectives

Future CSR programs	Objectives of the program
Provide financial support for medical treatment to the poor families or permanent disability persons	To improve the wellbeing of the society and minimize the cost of living to the other family members
Select several schools with problems in teaching and learning as the adopted schools of the bank	To facilitate the needs (financial support) of the schools to improve their teaching and learning process
Fund research in universities	To inculcate the culture of innovation, research and development in universities
Implement *Majlis Qorban* at state level	To strengthen the relationship (*ukhuwwah*) among the staff of the bank as well as with the local community
Explore the concept of *takaful ijtima'i* such as providing micro-finance *qard* from the *zakat* fund	To help Muslims in the society to get financial support to start their businesses
Establish the Foundation of Bank Islam (scholarship scheme)	To finance studies of the best students from the poor families or potential young leaders and to prepare them with necessary skills for the job market
Incorporate the Islamic Banking Club at the boarding schools, state or federal religious schools	To introduce the concept of *Shariah* compliance in the financial transactions and also to improve the awareness of Islamic banking at the early stage
Establish the *Skuad Amal Bank Islam* under supervision of *Kelab Kebajikan Bank Islam*	To help the community and other agencies during disasters or in emergency cases
Improve the basic facilities in the rural area of Sabah (Kampung Marmiang, Sandakan)	To improve the wellbeing of society

Some of the future CSR programs are being recommended by the schools that have participated in the PINTAR program. According to Respondent 10, the bank may offer a scholarship program to finance the best students from the PINTAR program (primary and secondary school students) to pursue their studies at the highest level of education. The scholarship holders would be required to work with Bank Islam for certain periods as part of the conditions in the scholarship contract. Hence, from this scholarship program the bank may establish a long-term relationship with the students.

Moreover, having a separate entity (foundation) to manage specific CSR programs like the scholarship scheme may help to enhance the effectiveness and efficiency of the program. Such programs can establish a good relationship with all parties involved and make a significant impact on the recipients in the community (Morris & Biederman, 1985). This point was raised by Respondent 1 as follows:

> We are looking forward to have a program with a more lasting… to see the development of the people… we need to keep track them. For instance, we finance 100 orphans in an orphanage institution. So, we have to ensure their education, attitudes and the future of them... So, in the future… we plan to have a long capacity program with a relationship. This is the thing that we think we should improve forward to be more meaningful and perfect.
>
> (Respondent 1)

In addition, the respondents suggested that the bank should establish the annual strategies or quarterly planning for the CSR initiatives and give an opportunity to the branches or regional offices to suggest the programs with certain budget allocations. Furthermore, the bank should establish a good monitoring system of the previous CSR programs to improve the effectiveness and to ensure long-term value creation. Respondent 15 mentioned that: "This is part of our planning [monitoring system]. After the program, we

should continue visit and monitor the progress or condition of the recipients". The bank should assess the current practices and make the necessary adjustments to improve the practices especially in regard to the *Shariah* compliance issues.

The bank also commits to educate and create awareness of the public to sustain and preserve the environment for the future generation. For example, the bank plans to conduct more outdoor environmental activities to improve the environmental awareness and to practice good stewardship of the planet by involving all staff of the bank as well the local community. Islamic banks tend to lack commitment to environmental issues because Muslim societies pay more attention to satisfying the basic needs of human beings as compared to environmental matters (Farook & Shikoh, 2010). Indeed, Islam encourages Muslims to conserve and protect the environment (Quran 16:81) and the natural resources should be properly managed and consumed (Ahmad, 2001; Williams & Zinkin, 2010). All of these efforts are done to accomplish the various stakeholders' expectations or aspirations and to motivate the bank to conduct more CSR initiatives in the future. Thus, CSR has been viewed as a way to meet the stakeholders' or shareholders' expectations (Cooke, 2010).

7.9   Summary of the Chapter

In this study, CSR engagement is viewed as a tool to discharge companies' religious, social and economic responsibilities and accountabilities to maintain a good relationship to Allah, other human beings and the environment. The ultimate objectives of engaging in such activities are to get Allah's blessing, to attain *barakah* and *al-falah* as well as to promote socio-economic justice among stakeholders. For Bank Islam, CSR is considered as part of its business commitment to be a responsible banker. The CSR culture and

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policy have been well-blended with the bank's day-to-day business operation. In addition, the CSR engagement at the bank is highly related to the *zakat* and most of the CSR initiatives of the bank are funded by the *zakat* fund to enhance the wellbeing of Muslim society.

In order to maximize the benefits of CSR engagement to the various stakeholders, these initiatives need to be properly managed. With more than 30 years' experience in the CSR engagements, the process of CSR management at the bank has shifted to be more structured and well-planned. Therefore, this study proposes a managerial guideline based on the experience of the bank in conducting the programs. This guideline is based on the *Tawhid* and *Shariah* paradigm and other derivatives concepts such as *maqasid Shariah, maslahah ammah* and accountability (*masuliyyah*). It is hoped that this managerial guideline can add a new perspective to the CSR literature. It is applicable to companies that want to conduct CSR as part of the commitment to be a good corporate citizen.

CHAPTER EIGHT: IMPLICATIONS, LIMITATIONS AND CONCLUSION

Bank Islam believes in corporate responsibility ["CR"] being the cornerstone of good business. The bank's philosophy is as much about looking after the health of the society as creating wealth for itself. As a responsible citizen of today's rapidly changing global community, Bank Islam will continue to strive to adapt to the evolving society's needs and contribute the overall wellness of the places it operates in

(Bank Islam Annual Report 2013, p. 124)

8.1   Introduction

This chapter discusses the research objectives, the key findings, the implications, the limitations and the recommendations for future research. It starts with an overview of research objectives and the key findings of this study in Section 8.2. There are four research objectives to answer four research questions in this study. Section 8.3 discusses the implications of this study from the theoretical, managerial and policy aspects. In Section 8.4, several limitations of this study and recommendations for future research are elaborated. Finally, Section 8.5 concludes the study.

8.2   Research Objectives and the Key Findings

This study was embarked upon to describe the Islamic concept of CSR and the CSR management process. The study explores the concept using *Tawhid* and *Shariah* paradigms, and other derivative concepts such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah* to govern a good relationship with Allah, other human beings (*hablun min Allah* and *hablun min an-nas*) and the environment. In this study, the CSR activities and the management process are based on the experience of Bank Islam Malaysia Berhad. As a pioneer in the Islamic banking industry in Malaysia, the bank has been seriously engaged in CSR activities since the day of its establishment. The activities include educational initiatives, poverty reduction projects, welfare support, unity programs, care

of the senior citizens and the homeless, improving facilities at mosques, renovation and rebuilding of homes and many more to improve the wellbeing of society.

Specifically, this study aimed to address four research objectives. Firstly, the study aimed to determine the concept of CSR for Bank Islam. It attempted to explain the concept from the Islamic perspective and, from the findings, this study documents that CSR is about any activities in which the bank engages to discharge its religious, social and economic responsibilities and accountabilities to maintain a good relationship with Allah (*hablun min Allah*), other human beings (*hablun min an-nas*) and the environment to achieve *maqasid Shariah* and *maslahah ammah*. For instance, the bank engages in community programs like the Home Project to provide a basic need (*dharuriyyat* – shelter) to underprivileged people to improve their quality of life. This program is not merely to discharge social obligations but it has also an element of religious obligation (*fard kifayah* – as part of worship to Allah) to help Muslim brothers and sisters who are poor and needy.

Secondly, this study aimed to identify the objectives of CSR engagements. From the Islamic perspective, the ultimate objective of CSR is to attain *al-falah* and *barakah* (success in this life and the Hereafter) from Allah. In addition, from CSR activities, the wellbeing of various stakeholders such as employees, customers, shareholders, community and the environment may improve. As a good corporate citizen, the bank may conduct more CSR initiatives to promote socio-economic justice. Indirectly and in the long run, the bank may sustain its business due to the commitment and support from the stakeholders which will enable it to compete with other Islamic banking players.

Thirdly, the study attempted to examine the factors and challenges that may influence CSR engagement as well as the benefits that may yield from such engagements. The main factors that may influence such activities at Bank Islam are religious obligations, *Ramadhan* (fasting month), pressure from various stakeholders, the commitment and involvement of the bank's staff members, and the size of the CSR fund. These factors may encourage the bank to naturally engage in CSR initiatives. Such engagements may yield benefits such as the fulfillment of Islamic principles and values, strengthened relationships with various stakeholders, improved wellbeing of recipients as well as society and also positive impacts on the bank. However, the bank may deal with some challenges in conducting such activities such as difficulties in fulfilling the stakeholders' aspirations and demands, handling its internal resources (financial and human resources) and managing the CSR activities systematically.

Lastly, the study aimed to describe the process of CSR management in accordance with *Shariah* principles. In this study, the process of CSR management was based on three selected activities, which are the Home Project, PINTAR programs and *zakat* contribution to universities (UUM). From the findings, this study documents that the process has shown a positive improvement to become more structured and well planned. Furthermore, this study develops a managerial guideline as shown in Figure 7.1 to manage the activities, which has four phases, namely, environmental scanning, design, implementation and evaluation.

These four phases incorporate ten steps: (1) assessing external factors; (2) discovering organizational conditions/norms/values; (3) identifying stakeholders and their issues; (4) conforming with the *Shariah* principles; (5) determining the organization's CSR framework/policies; (6) assessing current practices; (7) setting the objectives, strategies and policies of CSR initiatives; (8) implementing CSR initiatives in accordance with the *Shariah* principles; (9) monitoring and gaining stakeholders' feedback on the CSR initiatives; and (10) measuring the CSR initiatives.

8.3 Implications of the Study

This study contributes to the body of CSR knowledge from several aspects such as theoretical, managerial and policy implications.

8.3.1 Theoretical Implications

Theoretically, the present study offers a new insight into the Islamic perspective on CSR and the CSR management process in several ways. First, this study views CSR from the *Tawhid* and *Shariah* paradigm and other concepts like *maqasid Shariah*, *maslahah ammah* (public interest) and accountability (*masuliyyah*) to maintain a good relationship with Allah, other human beings (*hablun min Allah* and *hablun min an-nas*) and the environment. As compared to prior studies on the Islamic perspective on CSR, this study integrates all the above concepts to give a more holistic discussion on the CSR concept and management process.

From the findings, this study concludes that the CSR engagements are part of the worship *(ibadah)* (worship) and *amal soleh* (virtuous deed) to fulfill religious, social and economic responsibilities and accountabilities to Allah and other stakeholders like employees, customers, society, shareholders and the environment. In addition, CSR is also a means to achieve the *maqasid Shariah* and *maslahah ammah* as well as to discharge accountability (*masuliyyah*) to Allah and other human beings for the betterment of the Muslim community. Thus, this study contributes to the extant literature concerning the Islamic concept of CSR and the CSR management process based on the Bank Islam contextual setting.

Second, although the bank is a *Shariah*-compliant company and actively involved in CSR activities, the factors and challenges that may influence such activities need to be addressed such as the involvement of staff and the available CSR fund. For instance, at Bank Islam, part of the CSR fund is derived from the *zakat* fund (refundable *zakat*). In this context, the bank is responsible for distributing the *zakat* to the *asnaf* in accordance with the *Shariah* guideline to achieve the *maqasid Shariah* which gives a balanced consideration on the material and spiritual aspects for *maslahah ammah* (public interest). Thus, in designing CSR activities, the bank should comply with all *Shariah* guidelines to discharge its religious, social and economic obligations.

Third, the process of managing CSR activities from one company to another is unique and different companies practice different CSR strategies and approaches (Argandona & Hoivik, 2009; Hanke & Stark, 2009; Lindgreen *et al.*, 2009) especially from the Islamic perspective. Most of the prior CSR management guidelines are based on the conventional concept of CSR and the experience of Western companies. To the best knowledge of the

researcher, this study is the first attempt to describe and develop a managerial guideline on the CSR management process based on the *Tawhid* and *Shariah* paradigm. The guideline is applicable to other *Shariah*-compliant organizations because all the steps in the process are based on a consideration of the *Shariah* principles and guidelines. Furthermore, the guideline is also suitable to companies that have a good CSR policy but are facing difficulties in implementing, monitoring and evaluating these initiatives. Based on the proposed guideline, it appears that the bank can improve the process of measuring and evaluating the CSR programs to increase the impact on the recipients as well as improve the CSR reporting and communication.

8.3.2 Managerial Implications

This study develops a managerial guideline on the CSR management process (Figure 7.1). This guideline may assist business players to design, implement, evaluate and report their CSR activities in a more systematic way. For instance, in designing CSR activities, companies may identify their internal and external factors such as their stakeholders, financial capabilities (CSR fund) and involvement of the staff to support the program. After that, in managing the CSR fund the bank should determine the sources of funding for the CSR activities (whether from CSR budgeting or other funds like *zakat*). If the fund comes from the *zakat*, the bank should distribute it only to the *asnaf* in accordance with the *Shariah* guideline to achieve the *maqasid Shariah* and *maslahah ammah*.

In addition, all the CSR initiatives that have been conducted should be disclosed in various CSR communication channels such as the corporate website, corporate email, internal portal and newspapers to improve stakeholders' awareness of the bank's CSR activities. This study suggests that the purpose of CSR disclosure is to show that the

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Shariah compliance has been fulfilled and to demonstrate responsibility, accountability and transparency to maintain a good relationship with Allah (SWT) and other human beings.

Furthermore, this study also discussed the *zakat* management process in conducting CSR activities as shown in Figure 6.1. This process may help *zakat* payer organizations which receive *zakat* refunds from *zakat* authorities to be distributed to the *asnaf*. The process starts from calculating the amount of *zakat* until implementing the program under close monitoring by the *Shariah* Supervisory Council as well as *zakat* authorities. This may encourage more Muslim business entities to pay business *zakat* and make some arrangements with *zakat* authorities to self-regulate the *zakat* distribution.

8.3.3   Policy Implications

In regard to the policy implications, this study offers a new insight into the existing CSR framework in Malaysia including the Bursa Malaysia's CSR Framework and the Silver Book. Based on the findings, this study proposes that the religious dimension should be considered as part of the main CSR pillars in the CSR framework because this is part of the responsibility and accountability of Muslim business players to promote socio-economic justice and fair distribution of wealth in the community. Currently, there are four CSR pillars in Bursa Malaysia's CSR Framework, which are the marketplace, the workplace, the community and the environment.

In addition, this study recommends that the *zakat* authorities should provide standardized business *zakat* payment guidelines and procedures to the *zakat* payer organizations for self-regulation of the *zakat* distribution. The guideline may help to avoid the

mismanagement of the fund and serve as a good mechanism to monitor and control the implementation process. All the parties who are related to the *zakat* management in Malaysia such as the *Shariah* scholars, the *zakat* authorities and the *zakat* payer organizations should work together to produce the guidelines.

Moreover, this study also suggests that the CSR issue may need to be introduced to the accounting students in universities. Specifically, issues related to CSR budgeting may be integrated in the accounting syllabus to help accountants take into account the CSR expenses and to prepare the budget. This early introduction may assist the students to equip themselves with soft skills like influencing and communicating skills to assist the management team to make better decisions on CSR activities (with a limited budget but high impact).

8.4   Limitations of the Study and Recommendations for Future Research

This study has several limitations and due to that some recommendations are made for future research directions on this topic. First, this study is considered as a preliminary study on the CSR management process from the Islamic perspective. The proposed managerial guideline as shown in Figure 7.1 has not been applied in any other companies to assess the applicability of the guideline. Thus, it is highly recommended for future research to use this guideline in assessing companies' CSR management processes in their contextual setting. In addition, it would be worthwhile to conduct interviews with CSR players in other companies to get their views and perceptions in order to enhance the applicability of the guideline.

Second, the proposed CSR managerial guideline of this study is most suitable for *Shariah*-compliant companies. Conversely, if other non-*Shariah* compliant companies want to employ this guideline, they should omit and modify Step 4 (conforming with the *Shariah* principles and guidelines) and Step 8 (implementing CSR initiatives in accordance with the *Shariah* principles). The rest of the steps are applicable to all types of companies that aim to manage their CSR initiatives systematically.

Third, this study also proposes self-regulation of the *zakat* distribution in the *zakat* management process as shown in Figure 6.1. However, this recommendation is based on the single case study which might not be generalizable to other Muslim business entities. Thus, there is a need to conduct a study to obtain comments and suggestions from the *zakat* authorities' management on the self-regulation of distributing the business *zakat.* Their input would be important and valuable to improve the effectiveness of the current guidelines and procedures in distributing the *zakat*.

The fourth limitation is related to the number of cases undertaken in this study. A single case study may not be sufficient to get the whole story on CSR engagement from the Islamic perspective. However, as the aim of this study was to discuss the process of CSR management, the single case study may be able to explain the process and offer an empirically rich and holistic account of the specific phenomenon (the CSR management process) (Willis, 2014). However, in future research, the number of cases may be increased to gain more insights into such activities. For instance, comparative case studies may also be undertaken: (i) cross-company comparative studies within Malaysia (other Islamic banks and conventional banks that offer Islamic banking and finance services as well companies in different industries); and (ii) cross-country comparative

studies (other Islamic banks in Muslim countries and other developing countries). These comparative case studies would provide more empirical data concerning the management of CSR activities and the factors, benefits and challenges that may influence these activities in different contextual settings.

Finally, this study included a limited discussion on the CSR budgeting. This limitation was due to the scant information provided by the respondents on this topic (they claimed that budgeting information is private and confidential information to the bank). More studies may be conducted concerning this topic to explain the process of CSR budgeting and its usefulness to help companies manage their financial sources properly and to maximize the benefits of CSR activities. For instance, some CSR budgets from different companies could be reviewed to examine the format and content of the budget. The purpose of doing so is to help companies in preparing good CSR budgeting and conducting CSR programs that may offer high impact to the recipients as well as to society.

8.5 Conclusion

The issue of CSR has received an increasingly high profile in recent years all over the world. From the Islamic perspective, the social responsibility of business entities is broadly discussed in many *Quranic* verses and *Hadith* because it relates to the concept of *Tawhid* and *Shariah.* The integration of religious elements in the concept of CSR provides a unique contribution to the body of CSR knowledge because conducting the business in accordance with Allah's will is part of an individual's worship. Hence, all business players should engage naturally in CSR initiatives to discharge their religious,

social and economic obligations to the various stakeholders such as employees, customers, shareholders, society and environment.

However, there is limited empirical work on how these initiatives are being managed especially from the Islamic perspective. Due to the lack of CSR managerial guidelines, many companies consider that these initiatives are not more than philanthropies activities and they are struggling to develop a good CSR practice (Macarthur, 2009) to fulfill the various stakeholders' demands. Thus, by conducting a case study at Bank Islam, the aims of this study were to determine the concept of CSR, to identify the objectives of CSR engagements, to examine the factors and challenges that may influence CSR engagement as well as the benefits that may yield from such engagements and to describe and develop a managerial guideline on the CSR management process in accordance with *Shariah* principles. As a pioneer in the Islamic banking industry in Malaysia and winner of the "Corporate Social Responsibility Program of the Year (Bronze)" at the Asian Banking and Finance Awards 2013, the bank is ready to share its experiences and practices in managing CSR activities with other business players.

In addition, this study views the Islamic concept of CSR and the CSR management process from the *Tawhid* and *Shariah* paradigm and other derivative concepts such as *maqasid Shariah*, *maslahah ammah* and *masuliyyah*. These concepts argue that CSR engagements govern the relationship of man with Allah and man with other creatures including society (*hablun min Allah* and *hablun min an-nas*) and the environment. Therefore, all business players have a responsibility and accountability to conduct the business in a fair and justice manner by considering the demands of all stakeholders in order to attain *barakah* and *al-falah* (success in this life and the Hereafter).

Therefore, in order to understand the concept of CSR and the CSR management process, key CSR players at the bank as well as the beneficiaries of the CSR initiatives were interviewed. The semi-structured interview method was used to conduct interviews with 29 respondents who were divided into three groups: (i) managerial team; (ii) operational officers/staff; and (iii) beneficiaries (organizational and individuals). The strength of this study is the involvement of the beneficiary group to obtain their feedback and perspectives on the values and impacts of the CSR programs from their perspective. All of these respondents were directly involved in designing, implementing, monitoring or receiving the CSR initiatives. Hence, their input and views are meaningful to develop an understanding of the CSR management process from the Islamic perspective. Furthermore, six in-field observations and an analysis of the CSR reporting and documentation were employed to overview the whole process. The corporate formal CSR reporting, including the annual reports and corporate website as well as the internal CSR guidelines, was reviewed to support the arguments and to draw the findings.

The findings of this study suggest that CSR is about any activities in which the bank engages to discharge its religious, social and economic responsibilities and accountabilities to maintain a good relationship with Allah (*hablun min Allah*), other human beings (*hablun min an-nas*) and the environment to achieve *maqasid Shariah* and *maslahah ammah*. Further, the main objectives of CSR engagements are to attain *al-falah* and *barakah* as well as to enhance the wellbeing of all stakeholders including society and the environment and also for business sustainability.

The bank's CSR initiatives are funded from four sources: (i) the *zakat* fund (largest allocation); (ii) donation fund; (iii) non-compliant *Shariah* income; and (iv) purification fund. The strong financial support of the fund motivates the bank to conduct more CSR activities in a long-lasting capacity and on a large scale to assist the government in human capital development. Other than financial sources, the CSR engagements at Bank Islam are influenced by religious obligations, *Ramadhan*, pressure from various stakeholders, and the commitment and involvement of bank's staff members. In addition, the benefits that may yield from CSR activities include the fulfillment of Islamic principles and values, strengthened relationships with various stakeholders, improved wellbeing of recipients and society, and positive effects to the bank.

Furthermore, the study affirms that the CSR management process at the bank has shifted to become more structured and well planned. With respect to the bank's commitments and experiences, a managerial guideline on CSR management process has been proposed. This guideline may help the bank and other companies to manage CSR systematically as part of their commitment to be a good corporate citizen.

As a concluding remark, this study offers a new insight into the Islamic concept of CSR and the CSR management process from the Islamic perspective. However, one size does not fit all. Therefore, future studies may need to be conducted to provide a better understanding of the concept and the groundwork of CSR engagement to inculcate a sharing and caring culture among Malaysian companies.

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