



A *SHARĪ'AH* PERSPECTIVE OF CORPORATE SOCIAL  
RESPONSIBILITY AND ITS APPLICATION IN  
ISLAMIC BANKS IN MALAYSIA

BY

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## ABSTRACT

All the world's top multinationals engage in corporate social responsibility (CSR) in some form or other. There is almost no country in which business has not taken up the challenge of CSR in some way. Islamic banks which are also part of the business community and simultaneously guided by *Shari'ah* principles, face even more expectations in performing CSR as Islamic institutions. Although Malaysia is at the vanguard of the development of Islamic finance, there is no special CSR framework which has been devised to guide Islamic banks on CSR implementation. Probably, that is why there are so many "versions" of CSR practice in Islamic banks in Malaysia since there is no standard framework thus far. Therefore, the objectives of this study are to determine the status of CSR concepts and applications from the *Shari'ah* legal perspective, to ascertain the extent of *Shari'ah* compliance of CSR applications, and to propose a standard CSR framework that is balanced and comprehensive for Islamic banks' best practices. This *Shari'ah* qualitative research utilised two types of research methodology, namely descriptive analysis and empirical analysis. Based on the comprehension and the deduction process from the primary sources (*al-Qur'an* and *al-Sunnah*) and supported by classical and modern *fiqh* books, the analysis found that CSR is based on the *khalifah* concept and Islamic banks in Malaysia have the legal entity to perform CSR. The results of *Shari'ah* analysis also indicate that CSR applications of Islamic banks have mixed rulings which cover obligatory, highly recommended, and recommended CSR activities. In the empirical analysis, interviews, observations and document reviews have been employed as triangulation instruments in collecting data regarding the current CSR applications. Among the most significant finding is that the majority of the research participants felt that Islamic banks should have a special CSR framework. Finally, an Islamic CSR framework for Islamic banks' best practices was successfully proposed.

## ملخص البحث

كل الشركات متعددة الجنسيات الكبرى في العالم تنضم بشكل أو بآخر إلى مؤسسة "المسؤولية الاجتماعية للشركات" (CSR)، ولا توجد بلد في العالم - على الأعم الأغلب - تخلو من ممثل لهذه المؤسسة على نحوٍ ما. وإن البنوك الإسلامية تمثل أيضاً جزءاً من مجتمع الأعمال، كما أنها تسترشد في الوقت نفسه بمبادئ الشريعة الإسلامية، بل ويتوقع منها المزيد من تحمل المسؤولية الاجتماعية باعتبار أنها مؤسسات إسلامية، وعلى الرغم من أن ماليزيا كانت في طليعة الدول التي عملت على تطوير التمويل الإسلامي، إلا أنه لم يتم وضع أي إطار خاص بالمسؤولية الاجتماعية للشركات لتوجيه البنوك الإسلامية وفقاً لتطبيقات المسؤولية الاجتماعية للشركات، ومن المحتمل أن يكون ذلك بسبب وجود عدد كبير من إصدارات مؤسسة المسؤولية الاجتماعية المختصة بالبنوك الإسلامية في ماليزيا؛ حيث لا يوجد إطار موحدٍ متفقٍ عليه حتى الآن. وعليه فإن أهداف هذه الدراسة تتمثل في تحديد حالة المسؤولية الاجتماعية للشركات ومفهومها، ومدى مطابقتها لمبادئ الشريعة الإسلامية وقوانينها، وذلك من أجل التأكد من مدى التزام هذه المبادئ مع تطبيقات المسؤولية الاجتماعية للشركات، ومن ثمّ اقتراح إطار ثابت يكون متوازناً وشاملاً لأفضل ممارسات البنوك الإسلامية، هذا البحث النوعي الشرعي يتطلب الاعتماد على منهجين من مناهج البحث، وهما المنهج التحليلي الوصفي والمنهج التحليلي التجريبي، وبناء على عمليتي الفهم والاستنتاج المعتمدين على المصادر الأساسية للشريعة الإسلامية التي تتمثل في القرآن والسنة، ثم ما يدعمهما من الكتب الفقهية القديمة والحديثة نجد أن فكرة المسؤولية الاجتماعية للشركات تستمد شرعيتها من مفهوم "الخليفة"، بالإضافة إلى أن البنوك الإسلامية لها ممثل قانوني في هذه المؤسسة. وقد أظهرت الأدلة الشرعية الإسلامية أن أحكام تطبيق أنشطة المسؤولية الاجتماعية للشركات مع متطلبات البنوك الإسلامية تتراوح بين الفرض والوجوب والاستحباب. ومن خلال التحليل التجريبي والمقابلات ورصد الملاحظات واستعراض الوثائق التي تم الاعتماد عليها في جمع البيانات المتعلقة بموضوع الدراسة نجد أنّ أهم النتائج ذات القيمة الكبرى التي توصل إليها البحث تتمثل في أن البنوك الإسلامية ينبغي أن يكون لها إطار تطبيقي خاص بما يتناول المسؤولية الاجتماعية للشركات، وأخيراً فإن إطار تلك المسؤولية الاجتماعية للشركات بصيغتها الإسلامية المختصة بالبنوك الإسلامية يعد الاقتراح الأفضل لإنجاحه.

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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## **LIST OF STATUTES**

Central Bank of Malaysia Act 2009 (Act 701)  
Companies Act 1965 (Act 125)  
Employees' Social Security Act 1969 (Act 4)  
Employment Act 1955 (Act 26)  
Islamic Financial Services Act 2013 (Act 759)  
Occupational Safety and Health Act 1994 (Act 514)  
Street, Drainage and Building Act 1974 (Act 133)  
Whistleblower Protection Act 2010 (Act 711)



## LIST OF ABBREVIATIONS

### Common Abbreviations

a.s.	:	<i>'alayhi al-salām</i>
Ed.	:	editor
Eds.	:	editors
edn.	:	edition
et al.	:	<i>(et alia)</i> and others
etc.	:	<i>(et cetera)</i> and other things
i.e	:	that is
n.d.	:	no date
n.p.	:	no place of publication or no publisher
sec.	:	section
s.a.w.	:	<i>ṣalla Allāh 'alaihi wasallam</i>
s.w.t.	:	<i>subḥānahu wa ta'ālā</i>
vol.	:	volume

### Acronyms Used

AAOIFI	:	Accounting and Auditing Organization for Islamic Financial Institution
BIMB	:	Bank Islam Malaysia Berhad
BMMB	:	Bank Muamalat Malaysia Berhad
BOD	:	Board of Directors
CEO	:	Chief Executive Officer
CSP	:	Corporate Social Performance
CSR	:	Corporate Social Responsibility
CSRD	:	Corporate Social Responsibility Disclosure
G	:	Guideline
GLC	:	Government-Linked Company
GLIC	:	Government-Linked Investment Company
GSIFI	:	Governance Standard for Islamic Financial Institutions
HOS	:	Head of <i>Shari'ah</i>
HCC	:	Head of Corporate Communications
IFI	:	Islamic Financial Institution
IFSA	:	Islamic Financial Services Act 2013
IFSB	:	Islamic Financial Services Board
MD	:	Managing Director
PCG	:	Putrajaya Committee on GLC High Performance
PLC	:	Public Listed Company
S	:	Standard

## ARABIC TRANSLITERATION

This research adopts the Arabic Transliteration Scheme that is based on the American Library Association-Library of Congress (ALA-LC) with slight modifications such as the use of ‘h’ for the ‘هـ’ that indicates the feminine gender in Arabic nouns.

**Transliteration Table**

b = ب	z = ز	f = ف
t = ت	s = س	q = ق
th = ث	sh = ش	k = ك
j = ج	ṣ = ص	l = ل
ḥ = ح	ḍ = ض	m = م
kh = خ	ṭ = ط	n = ن
d = د	ẓ = ظ	h = هـ
dh = ذ	‘ = ع	w = و
r = ر	gh = غ	y = ي

Short: a = اَ ;      i = اِ ;      u = اُ

Long: ā = آ ;      ī = يِ ;      ū = وِ

Diphthong: ay = اِي ;      aw = اِوِ

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF STUDY

Corporate social responsibility (CSR) is an area of intense and increasing interest both to practitioners and academicians.<sup>1</sup> Even, the field of CSR has grown exponentially nowadays since more companies are engaged in serious efforts to define and integrate CSR into all aspects of their business due to its positive impact on business economic performance.<sup>2</sup> At the same time, investor interest in businesses that engage in CSR activities also has grown spectacularly for the same reason.<sup>3</sup>

Over the past twenty years, CSR has bloomed as a framework for the role of business in society and for setting standards of conduct to which a corporation must subscribe in order to affect society in a positive and productive manner. The emergence of social enterprises, business ethics, environmental practices, a human rights approach to recruitment and employment conditions and investment in the community are examples of impacts that can be seen.<sup>4</sup>

The concern over CSR is also significant to Islamic banks. In fact, the majority of Islamic banks worldwide are sensitive to CSR, and this is parallel with the goal of their establishment as institutions with moral and profit making motives.<sup>5</sup> As business

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<sup>1</sup> Abul Hassan and Sofyan Syafri Harahap, "Exploring Corporate Social Responsibility Disclosure: The case of Islamic banks," *International Journal and Middle Eastern Finance and Management*, vol.3, no. 3 (2010): 203.

<sup>2</sup> Jawed Akhtar Mohammed, "Corporate Social Responsibility in Islam," (Ph.D. Thesis, Auckland University of Technology, 2007), 10.

<sup>3</sup> Abul and Sofyan, 203.

<sup>4</sup> Asyraf Wajdi Dusuki and Nurdianawati Irwani Abdullah, "Maqasid al-Shariah, Maslahah, and Corporate Social Responsibility," *American Journal of Islamic Social Sciences*, vol. 24, no. 1 (2007): 26.

<sup>5</sup> Sudin Haron, and Wan Nursofiza Wan Azmi, *Islamic Finance and Banking System: Philosophies, Principles and Practices*, (Shah Alam: McGraw-Hill (Malaysia) Sdn. Bhd., 2009), 110.

entities established within the scope of *Shari'ah* (Islamic Law), Islamic banks are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and wellbeing.<sup>6</sup> This is particularly true since those involved in Islamic banking and finance normally regard their ethics and social responsibility commitment as being more enduring since they are ultimately based on divine revelation, whereas ethics and social responsibility derived from secularist morality are unavoidably temporary.<sup>7</sup> This is in parallel with Kamal, Gupta and Shanmugam's view that the perception of CSR amongst the stakeholders of Islamic banks is quite a bit different from the conventional notion of CSR.<sup>8</sup> One of the reasons is, being religious-based institutions, Islamic banks should provide quality services as part of CSR practice, which are deemed satisfactory by their customers, particularly when they often attribute themselves as being providers of ethical financial services.<sup>9</sup>

This research seeks to explore the notions of Islamic philosophy pertaining to social responsibility, which may give rise to determine the ruling of CSR in terms of *Shari'ah* legal aspect. This study will be based on Islamic religious values and beliefs according to *Shari'ah*, which is the sacred law of Islam derived from the holy *Qur'an* (divine book of Islam), *Hadith* (sayings, deeds, traits and silent approvals of the holy Prophet Muhammad (s.a.w.), *ijma'* (consensus), *qiyas* (reasoning by analogy), *masalih mursalah* (public interest), *'urf* (custom) and other *Shari'ah* sources. It is

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<sup>6</sup> Asyraf Wajdi Dusuki, "Stakeholders' Expectation towards Corporate Social Responsibility of Islamic Banks," (Paper presented at the International Accounting Conference III (INTAC 3), International Islamic University Malaysia, Kuala Lumpur, 26th - 28th June 2006), 2.

<sup>7</sup> Asyraf Wajdi Dusuki, and Humayon Dar, "Does Corporate Social Responsibility Pay Off? An Empirical Examination of Stakeholder Perspectives," (Paper presented at the International Business Performance and CSR Conference, London, 22 June 2005), 2.

<sup>8</sup> Kamal Khir, Lokesh Gupta, and Bala Shanmugam, *Islamic Banking: A Practical Perspective*. (Petaling Jaya: Pearson Longman, 2008), 308.

<sup>9</sup> Rodney Wilson, "Parallels Between Islamic and Ethical Banking," *Review of Islamic Economics*, vol. 11, (2002): 51.

expected that the elaboration of CSR ruling from the *Shari'ah* legal aspect will tackle some of the shortcomings in Islamic literature.

## 1.2 STATEMENT OF PROBLEM

The value of social responsibility, either individually or collectively, has been recognised throughout history. Major organisations throughout the world now realise that CSR is an important part of a company's operations, not only because of its positive impact on business economic performance but also on society, which in turn impacts positively on employees and the society at large. The business community needs to be aware of the responsibility it has towards the society. CSR does not mean just participating in charitable activities and events; it denotes holding the responsibility to build up the society by envisioning future plans for socio-economic justice and being cognisant of their responsibility towards the welfare of society around them.<sup>10</sup>

Islamic banks<sup>11</sup> are not excluded from this responsibility. In fact, their CSR expectation is more compared to conventional banks<sup>12</sup> since they are in an exemplary position as Islamic financial intermediaries.<sup>13</sup> Unlike conventional banks, long-term economic benefits should not be the foremost motive of doing CSR for Islamic banks. Despite the fact that viable economic institutions have to be driven by profit incentives, in the case of Islamic banks, it is not their only priority and certainly not

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<sup>10</sup> Rosnia Masruki, Norhazlina Ibrahim, and Noor Azlinna Azizan, "Incorporating Corporate Social Responsibility (CSR) into Sustainable Financial Performance of Islamic Banks in Malaysia," (Paper presented at the 2<sup>nd</sup> Langkawi Islamic Finance and Economics International Conference (LIFE 2010), Langkawi, Malaysia, 13 - 15 December 2010), 2.

<sup>11</sup> Islamic banking has been defined in a number of ways. Generally, Islamic bank is defined as a financial institution that operates with the objectives to implement the economic and financial principles of Islam in the banking industry. See Kamal and et al., 2. However, the actual meaning of Islamic bank in this study is as defined in the "Scope of Study" (sec. 1.7).

<sup>12</sup> Asyraf Wajdi, "Stakeholders' Expectation...", 11.

<sup>13</sup> Sayd Farook, "On Corporate Social Responsibility of Islamic Financial Institutions," *Islamic Economic Studies* 15, no. 1 (July 2007): 35.

the only reason for them to implement CSR. Definitely, any notion that Islamic banks or any other institution that claims to be Islamic, for that matter, should be socially responsible must derive its justification from Islamic law and principles, as contained within the *Qur'ān* and the *Sunnah*. Without this ultimate source of legitimacy, there is no reason for any action.<sup>14</sup> Islamic banks as part of business community are highly qualified to set plans for social change, and integrate their development goals with the country's agenda at large, as well as engage with the other organisations on collaborative projects.

The payment of *zakāt* (alms giving) and *ṣadaqah* (donation),<sup>15</sup> avoiding *ribā* (interest) and *gharār* (uncertainty) in banking activities<sup>16</sup> for example, are considered as among the most important indicators of CSR of Islamic banks. Nonetheless, stakeholders of Islamic banks are least concerned with environmental issues, an area of prime importance in conventional framework of CSR.<sup>17</sup> In addition, it is widely cited that Islamic financial institutions (IFIs)<sup>18</sup> which also include Islamic banks generally execute a part of their social responsibilities only and are widely accused to have generally ensured their operational status by avoiding negative actions or impermissible activities however only minimally and variedly performing recommended activities.<sup>19</sup> It seems that most of Islamic banks focus more on religious and philanthropic activities and almost ignore other CSR practices such as concern

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<sup>14</sup> Ibid., 32.

<sup>15</sup> Kamal and et al., 308.

<sup>16</sup> Farook, 36; Mohammed, 160-161.

<sup>17</sup> Kamal and et al., 308.

<sup>18</sup> As stipulated in section 2 Central Bank of Malaysia Act 2009 (CBMA 2009), "Islamic financial institution" (IFI) means a financial institution carrying on Islamic financial business. In the same section of CBMA 2009, "Islamic financial business" is interpreted as any financial business in ringgit or other currency which is subject to the laws enforced by the Bank and consistent with the *Shari'ah*. This means IFIs comprise of Islamic banks and Takaful (Islamic insurance) companies. However, for the purpose of this study, IFIs are confined to Islamic banks as defined under "Scope and Limitations of Study" (sec. 1.7).

<sup>19</sup> Farook, 36.

with social exclusion and human rights, environmental concerns and human resource development which cause an imbalance of CSR applications.

Furthermore, it is found from a study based on six Islamic banks in four countries that Islamic banks commitment to CSR is due to their pre-occupation with following legal decrees according to *Shari'ah*, rather than being informed by a higher-order framework of social responsibility in Islam.<sup>20</sup> Although there are many present practices in Islamic banks that are in line with notions of CSR in Islam, these seem to be merely ad-hoc and driven more by *Shari'ah* legal requirements rather than by a higher-order understanding based on fundamental religious texts concerning social responsibility. In addition, there is no legal requirement and clear guidance on the CSR stipulations imposed on Islamic banks.<sup>21</sup> Even reports of Islamic banks also show that selected Islamic banks are too customer centric and efficiency driven, but, that efficiency is targeted at the cost of sacrificing *Shari'ah* norms.<sup>22</sup>

Probably, that is why there are so many “versions” of CSR practices in Islamic banks in Malaysia since there is no standard framework in CSR practices.<sup>23</sup> Although there is a CSR framework for Malaysian public listed companies provided by Bursa Malaysia,<sup>24</sup> it is very general and not Islamically *Shari'ah* driven and it even depends on how the individual company interprets it. As such, it is recommended that regulatory authorities standardize the concepts of social responsibility for IFIs

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<sup>20</sup> Mohammed, 217.

<sup>21</sup> Zakaria Ali Aribi, “An Empirical Study of Corporate Social Responsibility and Its Disclosure in Islamic Financial Institutions,” (Ph.D. thesis, Edinburgh Napier University, 2009), 184.

<sup>22</sup> Mamunur Rashid, Islam Abdeljawad, Siti Manisah Ngalim and M Kabir Hassan, “Customer-centric Corporate Social Responsibility: A Framework for Islamic Banks on Ethical Efficiency,” *Management Research Review*, vol. 36, no. 4 (2013): 359.

<sup>23</sup> See Bank Islam Malaysia Berhad, “Corporate Responsibility,” <<http://www.bankislam.com.my/en/Pages/AboutCR/asp?tabs=6>> (accessed 1 December, 2013); Bank Muamalat Malaysia Berhad, “Corporate Responsibility,” <<http://www.muamalat.com.my/corporate-overview/corporate-responsibility/workplace/2011.html>> (accessed 1 December, 2013).

<sup>24</sup> Bursa Malaysia. “Corporate Social Responsibility (CSR) Framework for Malaysian Public Listed Companies,” <[http://www.bursamalaysia.com/website/bm/about\\_us/the\\_organisation/csr/downloads/csr\\_writeup.pdf](http://www.bursamalaysia.com/website/bm/about_us/the_organisation/csr/downloads/csr_writeup.pdf)> (accessed 1 January 2012).

especially Islamic banks practices based on *Shari'ah* principles. However, it is important to determine the ruling of CSR from *Shari'ah* legal perspective first in order to have a clear view about it before a standard and comprehensive Islamic CSR framework can be proposed.

Therefore, the research that is going to be conducted is to determine the ruling of CSR from the *Shari'ah* legal aspect. Other than previous studies, the application of CSR in Islamic banks in Malaysia will be investigated in order to know the current application of CSR activities. Finally, a standard, balanced and more comprehensive CSR framework will be proposed for Islamic banks best practices.

### **1.3 RESEARCH OBJECTIVES**

This study aims at achieving the following objectives:

- RO<sub>1</sub>: To determine the overall CSR concept and its applications<sup>25</sup> of Islamic banks from the *Shari'ah* legal aspect by exploring the notions of Islamic philosophy pertaining to social responsibility.
- RO<sub>2</sub>: To ascertain the extent of *Shari'ah* compliance of CSR applications by investigating the current application of CSR of Islamic banks in Malaysia.
- RO<sub>3</sub>: To propose a standard CSR framework that is balanced and comprehensive for Islamic banks best practices.

### **1.4 RESEARCH QUESTIONS**

In this study, the researcher attempts to provide answers to the following questions:

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<sup>25</sup> CSR application in this study refers to any CSR initiatives, which are initiated by an institution whether in the forms of programmes, policies or activities.