



**CORPORATE SOCIAL RESPONSIBILITY (CSR)
PRACTICE, DISCLOSURE AND PUBLIC
AWARENESS: A CASE STUDY OF LEMBAGA
TABUNG HAJI IN MALAYSIA**

BY

MOHD HAKIMI BIN HARMAN

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requirement for the degree of Master of Science in
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International Islamic University Malaysia**

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ABSTRACT

This paper studies the Corporate Social Responsibility (CSR) practices and disclosure by Lembaga Tabung Haji in Malaysia while at the same time measuring the public awareness on the CSR activities conducted by the institution. The paper adopts the combination of quantitative and qualitative descriptive methods whereby the data was collected and gathered from three (3) different sources, annual reports, e-mail interview and questionnaire. The findings suggested that Lembaga Tabung Haji conducted various CSR activities and it has been reported in the annual reports starting from 2005. Regardless of the CSR activities being disclosed in the annual reports, the report does not have any standard format whereby it differs from year to year and only with minimal coverage. However, the coverage has increased from year to year with only 1 page in 2005 to 17 pages in 2012 and with only 3 activities in 2005 to 17 activities in 2012. With regards to awareness, the level of awareness of the public is very low whereby most of the respondents do not really aware about the CSR activities conducted by Lembaga Tabung Haji and the highest level of awareness was at the workplace. Several limitations of the study were the lack of cooperation from the person in charge of Lembaga Tabung Haji's group CSR and no respondents from Lembaga Tabung Haji's staff. It is suggested for the future research to analyze the impacts of Lembaga Tabung Haji's CSR activities towards the economic developments of the Ummah and also to study the best CSR program that could benefit the majority of the society.

ملخص البحث

هذا البحث يدرس المسؤولية الاجتماعية للشركات من حيث الممارسات والإفصاح عنها من قِبَل مؤسسة ليمباغا تابونغ حجي بماليزيا بينما بالوقت ذاته يقيس مدى وعي المجتمع تجاه هذه الممارسات التي تقوم بها هذه المؤسسة. هذا البحث يتبنى منهجية تضم المنهجين الكمي والوصفي بينما البيانات تم جمعها من خلال ثلاث مصادر مختلفة وهي التقارير السنوية ومقابلات عبر البريد الإلكتروني والاستبيانات. أشارت النتائج بأن مؤسسة ليمباغا تابونغ حجي أجرت العديد من الممارسات التي تصنف ضمن المسؤولية الاجتماعية للشركات وقد أفصحت عنها في التقارير السنوية ابتداءً من عام 2005. بالرغم أن هذه الممارسات التي تصنف ضمن المسؤولية الاجتماعية للشركات تم الإفصاح عنها في التقارير السنوية إلا أنها تفتقر إلى نمط موحد بينما تختلف هذه الممارسات كل سنة ولا تذكر إلا القليل. يلاحظ بأن المذكور زادت كل سنة من صفحة واحدة فقط في العام 2005 إلى 17 صفحة سنة 2012 ومن ثلاثة 3 نشاطات فقط عام 2005 إلى 17 نشاطاً في العام 2012. فيما يخص الوعي فإن مدى وعي المجتمع ضئيل جداً بينما أغلب المستجوبين لا يدركون الممارسات التي تصنف ضمن المسؤولية الاجتماعية للشركات التي تقوم بها مؤسسة ليمباغا تابونغ حجي حيث أن أكبر درجة وعي كان في مكان العمل. لحق هذا البحث العديد من العقبات من ضمنها عدم تعاون الشخص المسؤول عن قسم المسؤولية الاجتماعية للشركات في مؤسسة ليمباغا تابونغ حجي وافتقار البحث إلى مستجوبين موظفين في مؤسسة ليمباغا تابونغ حجي. يوصى للأبحاث المستقبلية أن تحلل أثر الممارسات التي تصنف ضمن المسؤولية الاجتماعية للشركات التي تقوم بها مؤسسة ليمباغا تابونغ حجي على التطور الاقتصادي للأمة وأن تدرس أفضل البرامج التي تصنف ضمن المسؤولية الاجتماعية للشركات التي يتوقع أن تفيد غالبية المجتمع.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

.....
Sheila Nu Nu Htay
Supervisor

This research paper was submitted to the IIUM Institute of Islamic Banking and Finance (IIiBF) and is accepted as a fulfillment of the requirement for the degree of Master of Science in Islamic Banking and Finance

.....
Ahamed Kameel Bin
Mydin Meera
Dean, IIUM Institute of
Islamic Banking and
Finance (IIiBF)

DECLARATION

I hereby declare that this research paper 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.

Mohd Hakimi Bin Harman

Signature

Date

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AND PUBLIC AWARENESS: A CASE STUDY OF LEMBAGA TABUNG
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Date

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CHAPTER ONE

INTRODUCTION

TITLE

“Corporate Social Responsibility (CSR) Practice, Disclosure and Public Awareness:
A Case Study of Lembaga Tabung Haji In Malaysia.”

STATEMENT OF THE PROBLEM

Corporate social responsibility (CSR) was actively debated since 1950s and actively engaged by the Western institution. The public debate on CSR started prominently due to the increasing socioeconomic issues such as unemployment, poverty, pollution and discrimination as a result of the economic globalization, political changes, and technological revolution (Dusuki, 2008).

As business grow, their social responsibility also growing and emerging public concern on the CSR initiatives by these big companies also impliedly give signal to them on the requirement to involve with the CSR activities. As mentioned by Davis (1960) which reasoned that greater social responsibility is associated with the business with greater social power and failing to meet these social responsibilities is associated to the risk of losing one’s power. Thus, companies especially big corporations are in need to exercise the CSR activities. More important, however, is the disclosure of these activities since without disclosure, people will never know and this is important for the survival of the firm.

Various studies showed that the spirit embedded in CSR is also being promoted in Islam and various studies also conducted several research on CSR from

the Islamic perspective and also the perception of various stakeholders on CSR by Malaysian Islamic Banks. The results showed that the CSR is among the most important aspect of their banking selection criteria that they are expecting the Malaysian Islamic Banks to contribute to the society. This showed that the Islamic financial institution like the conventional financial system is expected by the stakeholders to involve with CSR activities and to disclose it.

While it is promoted in Islam to be socially responsible and highly perceived by the stakeholders on the involvement of Islamic Banks in CSR activities, the reporting and disclosure of the CSR activities by Islamic Banking in Malaysia still at the infancy stages whereby there still less or no reporting and disclosure of such activities. Even though Bursa Malaysia has come out with the CSR Framework for public listed companies in 2006, the report and disclosure of such activities still at the very minimum level. Several studies on reporting and disclosure have been conducted by Andrew et al (1989), Nik Nazli et al (2003), Zubairu (2008), and Sabarudin and Norhanim (2010).

From the findings, it is suggested that most of the reporting and disclosure of CSR activities still at the very minimum level and the reporting in the annual report only range from 2 to 10 pages. Also, it was found that the reporting does not have any standardization by which the institutions use their own creativity. All of these studies except Nik Nazli et al (2003) studied the CSR reporting and disclosure by banking institutions in Malaysia. Considering the CSR activities of banking institutions that can be considered as voluntary (no legal requirement or stipulated in the Memorandum of Association about the obligation of CSR) due to the structure of the companies which is corporate in nature that should act as profit making institutions,

nothing much that we can expect other than hoping that they also will fulfill the CSR practices as moral obligation.

Considering this and various studies that only focuses on the practices and disclosure of CSR activities by Malaysian banking institutions, there is a need for conducting a study on the practices and disclosure of CSR activities by financial institution other than banking institution especially by those that directly or obliged to provide CSR as one of their core business and not acted on voluntary basis. In Malaysia, Lembaga Tabung Haji (Pilgrimage Fund Board) that helps people to perform *Hajj* at lower price is the best case study. Unlike any banking institution, this Malaysian Development Financial Institution (DFI) that was established in 30th September 1963 under the virtue of Lembaga Urusan Tabung Haji Act 1969 (this Act was later replaced by Tabung Haji Act 1995), was established to help poor people to save their money for performing their *Hajj* and “to facilitate and assist pilgrims in achieving mabrur *Hajj*” is among Lembaga Tabung Haji’s mission. In their mission itself, Lembaga Tabung Haji stressed on their mission of helping the people especially the poor to save money and performing their *Hajj*. This can be considered as CSR by Lembaga Tabung Haji since other than helping the people to save their money, subsidy is also given to the depositor so that they can enjoy performing their *Hajj* at the cost lower than the actual cost. Unlike banking institution that operates for profit making, Lembaga Tabung Haji’s core business already embedded with the CSR obligation towards the society, thus CSR practices is not an alien to Lembaga Tabung Haji and can be considered as obligatory instead of voluntary. Other than that, unlike the customer of banking institutions that have the option in choosing their preferred bank, Lembaga Tabung Haji’s customers do not have any option in choosing the *Hajj* service provider since Lembaga Tabung Haji is the only institution that provides such

services and granted the quota by Saudi Government for bringing people to perform *Hajj* in Makkah. Also, now, Lembaga Tabung Haji is the Malaysia's largest Islamic fund manager with more than RM 41 billion funds. As mentioned by Davis (1960) that companies with greater social power is associated with greater social responsibility, thus Lembaga Tabung Haji have a greater social responsibility towards the *Ummah*. Due to this, it is imperative to study the practices and disclosure of CSR activities by Lembaga Tabung Haji since the stakeholders to this 'social financial institution', the depositor and public have the right to know everything which is related to CSR of Lembaga Tabung Haji. Also, it is important to assess whether CSR activities of Lembaga Tabung Haji for the Muslim community in Malaysia still being among the main core business of the companies or being treated as supplementary activities.

RESEARCH GAP

In relation to CSR practices and disclosure in Malaysia, there was no study being conducted on the CSR practices and disclosure by Lembaga Tabung Haji. Even though there are several studies in the reporting and disclosure of the CSR activities like Andrew et al (1989), Nik Nazli et al (2003), Zubairu (2008), and Sabarudin and Norhanim (2010), all of them except Nik Nazli et al (2003) focused on the disclosure practices by banking institutions while only Zubairu (2008) studied the disclosure practices by Malaysian Islamic Banks. It is believed that the study could fill the gap on the CSR area while the companies, its stakeholders and Muslim community at large can benefit from the findings.

RESEARCH PURPOSE

The purpose of this mixed quantitative and qualitative descriptive research is to ascertain the Corporate Social Responsibility (CSR) practices and disclosure by Lembaga Tabung Haji while at the same time ascertaining the public awareness on the CSR activities by Lembaga Tabung Haji.

RESEARCH OBJECTIVES

The objectives of this research are:

- i. To examine the CSR practices by Lembaga Tabung Haji.
- ii. To examine the CSR disclosure in the annual reports and website by Lembaga Tabung Haji.
- iii. To examine the public awareness about the CSR practices by Lembaga Tabung Haji.

RESEARCH QUESTIONS

The questions for this research are:

- i. What are the practices of CSR activities by Lembaga Tabung Haji?
- ii. What are the practices of CSR activities disclosure by Lembaga Tabung Haji?
- iii. What is/ are the core CSR activity/ activities practices by Lembaga Tabung Haji in order to fulfill their social responsibilities towards the Ummah?
- iv. What is the level of public awareness about the CSR practices by Lembaga Tabung Haji.

SCOPE OF THE RESEARCH

The scope of this research is only covers the CSR practices and disclosure by Lembaga Tabung Haji. With regards to the awareness of the public on the CSR activities of Lembaga Tabung Haji, the respondents were being chosen randomly among the Muslim community in Malaysia that being among the stakeholders of Lembaga Tabung Haji.

LEMBAGA TABUNG HAJI PROFILES

Lembaga Tabung Haji is an economic based financial institution in Malaysia that was established in 1962 under the virtue of Lembaga Urusan T abung Haji Act 1969 (however this Act was replaced by Tabung Haji Act 1995). This institution that is categorized as Development Financial Institution (DFI) in Malaysia was initially established with the objective to manage the pilgrimage activities for Muslim community in Malaysia. Lembaga Tabung Haji is also meant to play a bigger social role, in addition to this role, it also operates as an alternative for Islamic depositors to save and invest based on the Islamic principles. The history of Lembaga Tabung Haji can be traced back to 1959 when the Royal Professor Ungku Aziz presented a working paper on "A Plan to Improve The Economic Position of Potential Pilgrims" to the government. The fund board then was established in 1962 with the name Malayan Pilgrim Saving Corporation and in 1969 merged with Pilgrims Control Office (based in Penang since 1951) which later was renamed to Lembaga Urusan dan Tabung Haji. In 1995, in order to expand the operation framework of Lembaga Tabung Haji, new Tabung Haji Act 1995 was approved and enacted.

The fund was then established in 1962 with the aim to help and aid Malayan rural economy and to enable the Muslim community to perform *Hajj*. Now, with more

than RM 41 billion funds, Lembaga Tabung Haji is the Malaysia's largest Islamic fund manager. By providing attractive savings schemes and innovative services, Lembaga Tabung Haji now has more than 8 million depositors and also has an operating office in Jeddah. Lembaga Tabung Haji also has several subsidiaries:

1. TH Properties Sdn. Bhd.
2. TH Travel & Services Sdn. Bhd.
3. TH Hotel & Residence Sdn. Bhd.
4. TH Plantations Berhad
5. Theta Edge Berhad
6. Bank Islam Malaysia Berhad (BIMB)
7. BIMB Holdings Sdn. Bhd.
8. Syarikat Takaful Malaysia Berhad

CHAPTER TWO

LITERATURE REVIEW

EARLY DEVELOPMENT OF WESTERN CSR

The concept of Corporate Social Responsibility (CSR) is a concept which was introduced and evolved before the introduction of modern Islamic Banking. This concept is commonly viewed from the western perspective whereby the focus is often on the view that can be found in Western beliefs, cultures, and norms especially in America and Europe (Yusuf and Bahari, n.d.). It is believed that the concept of CSR has been the society's concern for centuries, but as mentioned by Carrol (1999), the formal writing on CSR was mostly produced during the 20th century. According to Madrakhimova (2013) and Carroll (1999), the evolution of modern CSR can be traced back to 1950 whereby the concept of CSR was being constructed and the definition later on was being expanded and spread in 1960s and 1970s, but Mohammed (2007) mentioned that the 1920s have been agreed by scholars as the dawn of CSR whereby during this time in America, business leaders started to involve with the community by reaching out to them and providing employees with numerous benefits.

Musdiana et al (2012) mentioned that the Industrial Revolution in late 18th and 19th centuries together with Industrialization in 19th and 20th century marked an important milestone in the CSR history. Idea of ethics is not new in large companies because they not only began to involve in activities with communities and environment, but also developed welfare programs for the workers. Among the pioneers during this time were:

Robert Owen - Set up series of social villages in the early 1800s around his textile mills in Scotland which cater the education for his employees together with their children, providing food, health care, banking facilities, cooperatives and also leisure activities.

Henry Ford - Henry Ford have been unknowingly used the basic tools of CSR in 1920s whereby he was paying his workers the amount which was enough to buy the car that they produced. This not only creating and stimulating the demand for the car, but also made them an attractive employer.

However, Kraus and Brtitzelmaier (2012) mentioned that the debate of modern CSR can be traced back to 1930s with the arguments of the roles of manager by E.Merrick Dodd which mentioned that the manager have the responsibilities towards the society. Even E. Merrick Dodd was the first that formally discussed about the CSR, more scientific and systematic discussion being held by Howard R. Bowen in his first scientific paper. Madrakhimova (2013) mentioned that Bowen's first scientific paper that was published in 1953 was the beginning of a systematic scientific analysis and provided frameworks and also directions for further discussions on the CSR. This view was also shared by Carroll (1999, p. 269) that this landmark books by Bowen "mark the beginnings of the modern period of literature". In his article, Carroll (1999) discussed in detail on what had been discussed by Bowen in his paper in 1953, "Social Responsibility of a Businessman".

The public debate on CSR started prominently due to an increasing socioeconomic issues like unemployment, poverty, pollution and discrimination which

resulted from the economic globalization, political changes and technological revolution (Dusuki, 2008). Jamali and Mirshak (2007) pointed that the advent of international trade and globalization which reflected in new demand for corporate citizenship and enhanced transparency has stemmed the interest in CSR.

Dusuki and Dar (2007) and Dusuki (2008) identified four factors or driving forces that lead to the growing trends of CSR:

1. Growing market pressure whereby the social and ethical issues received increasing attention from the public.
2. Increasing regulatory requirements from the governments which made the business compulsory to abide the regulations.
3. Increased power of communication such as internet and electronic media that increased the effectiveness of the efforts done by the customers, employees or Non-Governmental Organizations (NGOs) to force companies to act in a social-environmental friendly.
4. Competitive advantages that can reap by the companies by being socially responsible.

Mohammed (2007) and Bowie (2012) asserted that due to not following the assertion made by Davis (1960) which reasoned that greater social responsibility associated with the business with greater social power and failing to meet these social responsibilities is associated to the risk of losing the power, lead to the fallen of big corporations such as Martha Stewart (lifestyle advisor), WorldCom (Communications provider), Merrill Lynch (stock market broker), Enron (energy provider) and Arthur Anderson (accounting firm). Mohammed further stressed that there are market

changes on the way of private business expected to contribute to the society due to the deregulation, globalization, privatization and the lines of market and state which redraw. As for the globalization, the economic and social problems which brought by it have raised such expectation towards business on corporate governance and CSR whereby the growth of multinational companies in developing countries, by which with the vast resources of these companies, government are looking forward for these companies to help in addressing social and economic problems and this is reflected by a shift of responsibility and power between the state and business (Dusuki, 2008). Jamali and Mirshak (2007) also pointed that while there is 'traditional assumed sole responsibility' of governments on the improvements of the society's living conditions, the government is unable to provide this due to the limited capabilities of the government to fulfill excessive society's needs and this lead to the shift of focus towards the role of business for the society.

DEFINITION OF CSR

Corporate Social Responsibility (CSR) is a concept which does not has a consensus definition (Argandoña & Hoivik, 2009 ; Hasan & Harahap, 2010 ; Kraus & Brtitzelmaier, 2012) whereby Mohammed (2007) referred as abstract and have several meanings and Babacan (2012) noted that the definition of CSR lead to countless publications. However, according to Argandoña and Hoivik (2009: 222) the different origin of this age-old concept is the reason why there is no consensus definition of CSR and is not due to the lack of capacity of the experts and scholars.

Even though there is no consensus definition of CSR, scholars and articles provided several definitions based on their understanding. The definition of CSR has been discussed by Bowen (1953) in his book, "Social Responsibility of a

Businessman" and Carroll (1999) has discussed in detail on the Bowen's definition of CSR. Carroll (1999) also discussed on the development of literature on CSR from 1950s to 1980s. Kraus and Britzelmaier (2012) also discussed the definitions of CSR from various scholars and writers. In the following table, there are several definitions of CSR from several scholars which was adapted from Kraus and Britzelmaier (2012: 284-285) as cited from Russell (2010: 44-47). The list is sorted from the earliest definition given by the scholars to the most recent .

Table 2.1
 Definition of Corporate Social Responsibility (CSR)
 (Adapted from Kraus and Britzelmaier (2012: 284-285)
 As cited from Russell (2010: 44-47)

Scholars	Definition of CSR
Bowen (1953)	“What responsibilities to society may businessmen reasonably be expected to assume?” “CSR refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action, which are desirable in terms of the objectives, and values of our society. “Interest in politics, in the welfare of the community, in educations, in the “happiness” of its employers, and, in fact, in the whole social world about it. Therefore, business must act justly as a proper citizen should.”
Davis (1959)	"decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." Cited from Carroll (1991: 39)
Frederick (1960)	“Social responsibility in the final analysis implies a public posture toward society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms.” Cited from Carroll (1991: 39-40)
Walton (1961)	“CSR refers to the problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society.”
Sethi (1975)	“Social responsibility implies bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of performance.”
Carroll (1979)	“... the proper social responsibility of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human

	competence, into well-paid jobs, into wealth.”
Wood (1991)	“Argues that the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities.”
McWilliams and Siegel (2001)	“CSR is situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law.”
Kotler and Lee (2005)	“Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.”
Hopkins (2007)	“CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. ‘ Ethically or responsible’ means treating Stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside – for example, the natural environment is a Stakeholder. The wider aim for social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation.”

From the definitions given, it can be summarized that the definitions vary depending on how the scholars view the CSR as suggested by Argandoña and Hoivik (2009). However, regardless of the different ways of sentencing the definitions, almost all definitions are promoting or highlighting the following:

1. Business is ethically responsible towards the society or stakeholders at large.
2. CSR is an ethical responsibility of the business.

Even different scholars view stakeholders or society differently, but all of them evidently by their definition of CSR agreed that the business is required to be ethically and socially responsible to the society or stakeholders or which Carroll (1991) referred to as philanthropic responsibilities.