

## CSR Management Process in Bank Islam Malaysia Berhad (BIMB): Managing Zakat Fund

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### Abstract

The notion of CSR from Islamic perspective has been viewed as a comprehensive discourse when it is already embedded the element of spiritual (*Iman* and *Taqwa*), economics, ethical and legal. The integration of these elements in Islamic CSR is urged companies to manage it systematically and optimize the value of CSR to become a DNA of the company. However, the process of managing CSR initiatives is scarcely focused on. Thus, by using case study approach, a group of key players in planning, implementing and receiving CSR initiatives has been interviewed in a way to gain better understanding of CSR management process and to gain insights the benefits of engaging and sustaining CSR initiatives. In addition, several series of in-field observations on CSR events as well as documentation analysis have been employed to get the whole picture of the process. The results show that CSR initiatives in Bank Islam are highly associated with *Zakat* and *Zakat* management due to a big portion of CSR fund is derived from *Zakat* fund. Most of the respondents demonstrate that CSR is about giving back to society and as a tool to help and develop communities. Then, in light to the CSR management process, the findings suggest that the process has been shifted to systematic approach and well planned. This significance improvement can be demonstrated for the past five years, after rebranding of the bank. Thus, this interesting finding provides an avenue to draw a conceptual framework in managing CSR initiatives. The findings offer a good opportunity to companies and regulatory bodies to enhance the existing framework on managing CSR as part of their commitment to improve the well-being of community and for business sustainability.

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

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## Introduction

Islam fully promotes *Muslims* to conduct businesses in accordance with the commands of Allah and *Shariah Islamiyyah*<sup>1</sup> and it is a part of worship (*ibadah*) and obedience of Allah as the Quran<sup>2</sup> enjoins in *Surah As-Saff*, verse 10 to 11. According to Islamic business ethic, a Muslim businessman must possess all kinds of good behavior (*mahmudah*) such as trust, sincerity, balance and justice (*adl*), responsibility and accountability. Many teachings of Islam are indeed aligned with the concept of corporate social responsibility (CSR) (Ramasamy, Ng, & Hung, 2007). In fact, Islam is an ethical code of conduct (Ahmad, 2001) and a way of life for the whole mankind. The beauty of Islamic corporate social responsibility (ICSR) is the integration of moral and religion and the concept is derived from Al-Quran and *As-Sunnah*<sup>3</sup> (Ahmad, 2001; Hanafy & Sallam, 2001) which are the primary sources in *Shariah*. However, most of the CSR discussions are based on a western orientation which is influenced by western religious value even most of Islamic philosophy is aligned to CSR notion. This is due to ICSR literatures remain scattered and fragmented and lack of a coherent framework to discuss CSR in Islamic concept and context (Mohammed, 2007).

Furthermore, even many companies claim that they are socially responsible companies but actually they do not have effective strategies to manage CSR and take further action to support CSR as business opportunity (Panapanaan, Linnanen, Karvonen, & Phan, 2003). It could due to little has been written about how such commitment should be managed (Hond, Bakker, & Neergaard, 2007) or implemented (Smith, 2003) in concrete and systematic ways. In addition, CSR needs to be organized systematically as part of management strategies (Panapanaan et al., 2003). If the CSR is organized strategically, it is able to improve financial performance (Orlitzky, Schmidt, & Rynes, 2003) by generating favorable stakeholders attitudes and behaviors (e.g.: purchase, employ, investing in the company) and in the long run it will enhance corporate/brand image, strengthen the relationship between stakeholders and company and improve stakeholders' commitments and supports towards the company (Du, Bhattacharya, & Sen, 2010). Hence, this study will try to reduce the gap by discussing CSR from Islamic perspectives and proposes a framework to manage CSR initiatives by using *Zakat* fund in a systematic model in a multicultural and religious setting. The proposed framework will help to enhance the existing framework (Maon, Lindgreen, & Swaen, 2009; Panapanaan et al., 2003; Werre, 2003) which absolutely believed has different approach compared to Malaysia which is developing countries and multicultural society which dominated by Muslim community.

This study believes that there are possibilities that such CSR practices are hidden or cannot be observed directly especially from annual reports. Therefore, it is expected that many companies would have good policies and CSR management practices to carry out their CSR activities. But, how do they do that? To answer this question, this study chooses Bank Islam Malaysia Berhad (BIMB) to gain an understanding about the CSR management process especially on managing *Zakat* fund for CSR activities as well as to gain insights the value of engaging and sustaining in such activities. As a pioneer Islamic bank and with almost 30 years experience in Islamic banking and finance industry, the banks is proud to share its experiences and practices to make

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<sup>1</sup> 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

<sup>2</sup> Book of divine revelation

<sup>3</sup> The deeds and saying of the Prophet Muhammad (peace be upon him (pbuh))

the public aware of what has been done to be a good corporate citizen which carry the name of Islam.

Again, formal corporate documents such as annual reports, web sites, brochures and advertisement may not be enough to explain how the companies engage and sustain the relationship and contribution to stakeholders (Maignan, Ferrell, & Ferrell, 2005). Thus, this study believes that, some Islamic banks are actively involved in CSR activities but they refuse to disclose or report those information (Mohd Ghazali, 2007) in public documents such as the annual reports for certain reason like they hold the Islamic philosophy that alms-giving (donations) that are given secretly are more better (Quran 2:271). Therefore, conducting interviews with all CSR players who involve directly and indirectly in the bank as well as the beneficiaries of the CSR initiatives and several in-field observations are needed to yield meaningful understanding of CSR practices in BIMB.

In reality, each organization or company has its own CSR management process and practices due to different organization faces different problems and opts for different solutions. It is believed that there are different CSR practices between small, medium and large firms (Lu & Castka, 2009). For instance, small and medium enterprises (SMEs) in Malaysia are driven by local business trends and multinational corporations (MNCs) are driven by their overseas headquarters (Lu & Castka, 2009). As a result, many companies are still struggling in developing good CSR practices (Macarthur, 2009) and the ideal concept of CSR that can be practiced on the real business operations (Dusuki & Abdullah, 2007b). It has been supported by a survey conducting by Malaysian Institute of Management (MIM) pointed out that most of Malaysian companies need training development in CSR management and implementation because they still not fully understand the concept of CSR (Malaysian Institute of Management, 2009). On top of that, Malaysian companies need a universal guideline which reflect Malaysian's environment, politic, economic and culture (Lu & Castka, 2009) because the business players and community are still confused about the concept of CSR. Hopefully, this managerial guideline is very useful for managers, consultants and business leaders who desire to organize and manage a good CSR program or to improve what has been done for CSR activities in order to create sustainability for their businesses in Islamic approach. Moreover, this study will help the Malaysian regulatory bodies in developing and preparing Islamic social responsibility reporting standards and CSR policies to increase companies' awareness and integrate CSR in daily business orientation.

The remainder of this study is organized as follows: First, CSR and ICSR literature, especially on conception of CSR and the existing framework on CSR management process are reviewed. Second, the methodology and details of the case as well as respondents involve in this study are outlined. Third, the findings of the study, including the proposed framework on managing CSR initiatives by using *Zakat* fund and the value of engaging such initiatives are discussed. Finally, some concluding remarks are presented.

## **Literature review**

### *Conception of CSR and ICSR*

The CSR terminology has been borrowed from western and become acceptance word for study about responsibility of business towards community. As stated earlier, this study will use the term of "corporate social responsibility (CSR)" instead of corporate responsibility (CR), corporate social performance (CSP) (Clarkson, 1995; Wartick & Cochran, 1985; Wood, 1991),

corporate social responsiveness, corporate citizenship (Hemphill, 2004; Waddock, 2009), global citizenship (McElhaney, 2009), corporate stakeholder responsibility (Sachs & Maurer, 2009), and many more. This term reflects the entire above concepts and well established in CSR literature like was has been claimed by Carroll and Shabana (2010), “CSR remains a dominant, if not exclusive, term in the academic literature and in business practice” (p. 86). Hence, this study defines CSR as about doing well for society and business and a collective name for many social activities that company does for sustainable and reputation.

The CSR practices should go beyond as a contribution to community and philanthropic activities. CSR activities also encompass social and national development (nation building agenda) which helps government in providing public services or infrastructure. According to Carroll (1979, 1991) classification of CSR, a business entity must fulfill four responsibilities: economic, legal, ethical, and discretionary (philanthropic) while for Islamic business entity especially, Islamic financial institutions, they are obligated to another big responsibility which is religious obligation (Parvez & Ahmed, 2004). As an economic entity, Islamic bank is responsible to provide financial products and services at a reasonable profit and these economic activities are bound with existing Islamic and other legislation frameworks. Moreover, the banks have a social contract with community to conduct the business ethically and to be a good corporate citizen. Hence, the banks need to involve in CSR activities to improve community’s quality of life (Abdul Rahman, Md Hashim, & Abu Bakar, 2010; Dusuki, 2008a; Maali, Casson, & Napier, 2006).

In Islamic business world, two practices that have been denoted as social responsibility are payment of *Zakat*<sup>4</sup> (e.g. Quran 2:43; 2:83; and 2:110) and prohibition of usury (*riba*) (e.g. Quran 2:275; 2:278-279; 3:130; 4:161; and 5:62). Consequently, the concept of ICSR needs to be discussed in holistic view because is based on the concept of *Tawhid* (the unity of Allah) where the Allah is the Creator, Owner, Absolute, and Ultimate (Quran, 39:44) and *Shariah Islamiyyah*, via the concept of vicegerent (Dusuki, 2008b). According to these concepts, man has to maintain a good relationship with Allah (SWT) (*hablun min Allah*), with other human being (*hablun min an-nas*) and also with environment (Afridi & Navaid, 2006; Ahmad, 2001; Hanafy & Sallam, 2001). Thus, detail discussions on the concept of *Taqwa* and *Shariah* paradigm in Islamic CSR will be further explained in the next section.

#### *Taqwa and Shariah paradigm*

The connection between the concept of *Tawhid* and *Shariah* are important in discussing ICSR as what has been proposed by the Accounting, Auditing Organization for Islamic Financial Institutions (AAOIFI) in Accounting, Auditing and Governance Standards (for Islamic financial institution) (2010). The standard sets out that the Islamic financial institutions (IFI) need to fulfill five responsibilities in carrying out all social activities: (1) religious responsibility, (2) economic responsibility, (3) legal responsibility, (4) ethical responsibility, and (5) discretionary responsibility. Interestingly, these responsibilities are aligned with what has been proposed by

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<sup>4</sup> Obligatory charity that imposed to *Muslims* who able to do so. Two types of *zakat*: *zakat al-fitr* and *zakat on wealth* which covers money from business, savings, income and so on.

the Carroll's (1979) Model. The additional responsibility towards religious in AAOFI standards is to prescribe the connection between the concept of *Tawhid* and ICSR. The religious responsibility in ICSR concept requires managers to comply with all *Shariah* guidelines in conducting business activities and fulfill their social and moral responsibility for the well being of the society. Therefore, any organizations that claim following *Shariah* principles in conducting the business should naturally practice CSR (Dusuki & Abdullah, 2007a) for the benefits of various stakeholders and managing the stakeholders' issues in a strategic way.

#### *Stakeholder management*

In managing CSR initiatives, an organization should carefully examine the different group of stakeholders and their issues also may different depending on that nature and location of the organization (Hond et al., 2007). Freeman (1984) suggested that stakeholders consist of the individuals or groups that can directly or indirectly affect, or be affected by a firm's activities. There two views in grouping the stakeholders: (1) internal or external stakeholders; and (2) primary or secondary stakeholders. The good management system of an organization is reflected on how its stakeholder relationship is managed (Waddock, 2009). Hence, among the key challenge to manage these groups of stakeholders is to ensure a company can fulfill its primary stakeholders' objectives and at the same the other stakeholders are also satisfied with the company's decisions (Carroll, 1989).

In Islamic perspective, an organization has a range of responsibilities to various types of stakeholders and these responsibilities are derived from Islamic concept of ethical principles and moral values which promoting social responsibility and justice (Mohammed, 2007). Islam recognized the right of owners/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). Islam strongly urges on the responsibility of business organizations toward society by performing *Zakat* and any other kinds of charitable and social activities. Specifically, in managing stakeholders, Islam prescribes detail procedures in determining the beneficiaries (*asnaf*) of the *Zakat* fund. In distributing *Zakat* fund, there are eight categories of beneficiaries (*asnaf*) (Quran 9:60) which need to be carefully identified and managed.

#### *Business Zakat in Malaysia*

As mentioned above, paying business *Zakat* is a clear example of how Islam promotes CSR initiatives because *Zakat* will engage the relationship between not only man and Allah but also man and the society. The obligation of organization on business *Zakat* has been mentioned in *Surah Al-Baqarah*, verse 267. *Zakat* is one of the Five Pillars in Islam and the principle objective of paying *Zakat* is to develop balances socio-economic growth and to purify one's soul and wealth. One type of *Zakat* is *Zakat* on business. Business *Zakat* is obligatory for all types of businesses as long as Muslims have interests in that business. *Zakat* on business has been defined as "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). The rate of *Zakat* is 2.5% on *Zakatable* business assets (*Zakat* base) which subjected to minimum amount (*nisab*). In Malaysia, the role of collection and distribution of *Zakat* fund is managed and governed by 14 *Zakat* authorities such as *Lembaga Zakat Selangor*, *Pusat Pungutan Zakat Wilayah Persekutuan*, *Jabatan Zakat Negeri Kedah* and many more.

### *CSR management process*

In academic literature, CSR discussion is more focus on conceptualization (Carroll, 1979, 1991; Wood, 1991), key characteristics (Werre, 2003) and also disclosure and reporting (Amran & Devi, 2007; El-Bannany, 2007; Maali et al., 2006; Mohd Ghazali, 2007; Reverte, 2009; Said, Hj Zainuddin, & Haron, 2009; Waller & Lanis, 2009). On the other hand, limited attention has been given to the CSR management process, especially in designing and implementing process of CSR (Maon et al., 2009). There are several studies have been conducted to understand the process of managing CSR activities. However, some of these studies only focus on certain area such as in marketing (Maignan et al., 2005), and the proposed frameworks are based on practices of companies in developed countries (Maignan et al., 2005; Maon et al., 2009; Panapanaan et al., 2003; Werre, 2003) except a study from Jamali, Zanhour and Keshishian (2009). Most of these studies are based on Europe which slightly different in term of socio-economy, culture (Panapanaan et al., 2003), environment and religion as compared to Malaysia.

For instance, Panapanaan, Linnanen, Karvonen and Phan (2003) proposed a very comprehensive framework that highlighted the CSR processes and management aspects. In this research, the concept of CSR is very well acceptable, understood and blended in Finland environment and communities and the proposed framework is very useful in that contextual setting because they are ready to practice and sustain in CSR initiatives as compared to Malaysian environment where the level of CSR awareness in Malaysia is still low but they are showed positive attitudes in practicing CSR (Abdul Rashid & Ibrahim, 2002; Amran & Siti Nabiha, 2009; Lu & Castka, 2009; Ramasamy & Hung, 2004; Zulkifi & Amran, 2006) and these practices are far behind the international best practices (Bursa Malaysia, 2007).

Another comprehensive managerial framework for implementing CSR is from Maignan, Ferrell and Ferrell (2005). They introduced a step-by-step approach for implementing CSR. 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 orientation and the ideal CSR implementation should give a balance consideration of a stakeholder perspective into all aspects of business operation (such as finance, accounting, human resources, etc) to form an inherent component of a business's culture and reflects in its day-to day operations (Werther & Chandler, 2006). In addition, the model is too focusing on stakeholders' issues which some of us believe that the success of the CSR implementation is also depended on other environmental/external factors and internal competencies to achieve CSR objectives (Werther & Chandler, 2006). The possible implication for the unbalanced views of a CSR initiative is that initiative may not aligned with organizational long term strategy for business sustainability. Hence, the study is strongly believed Bank Islam has developed its own CSR management framework, especially in managing *Zakat* fund to conduct CSR initiatives but the framework still has a room to be improved.

### **Methodology**

In discussing, understanding and explaining the CSR practices, qualitative and quantitative methods can be used. However, sometimes the actual process of such practices in an organization is a highly complex task, then quantitative approach may not sufficiently enough to capture the whole process (Lauring & Thomsen, 2009). Alternatively, an explanatory case study

or ethnographic fieldwork technique (Lauring & Thomsen, 2009) is particularly useful approach to be employed. The qualitative case study is concerned more on understanding and describing process rather than behavioral outcomes (Merriam, 1988) as well as to explain the reason for observed phenomenon by using *Tawhid* and *Shariah Islamiyyah* paradigm. There are several underlying reasons in the bank's selection. Among the characteristics to be considered are: (1) the bank is Islamic business entity and *Shariah* compliance; (2) the bank has a long experience (30 years experience) in Islamic banking system; (3) the bank engages in CSR activities since the day one of operation (paying business *Zakat*); and (4) the management is willing to share the information. In addition, Islamic banks have a social face (Mohammed, 2007) where they the objectives of the banks are not only making profits but also to help community and environment around.

In order to improve methodological rigor, several techniques have been used such as a series of interview sessions, in field observations and documentation analysis for data collection. The aim of data collection process is to develop rich and in-depth understanding on the CSR practices in the bank especially in managing *Zakat* fund. In particular, we interview 25 respondents, who consists all parties involved in CSR management process. These respondents have been divided into three groups: which are (1) management team, (2) operational officers, and (3) beneficiaries. Then, for the beneficiaries group, there are two types: organization beneficiaries - an organization that responsible to manage the benefits and individual beneficiaries - individuals who are receiving direct benefits. The profile of respondents is in the Appendix 1. In addition, five series of in-field observations of CSR events have been attended as well as CSR documents such as annual reports from 2009 to 2011, project papers, internal documents which the status is private and confidential, brochures, websites, and flyers have been reviewed and analyzed to support the findings.

Specifically, for data analysis, the study employs several techniques that have been proposed by Miles and Huberman (1994) and Creswell (2007). 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). Furthermore, The data can be displayed in many types of matrices, graphs, charts and networks (Miles & Huberman, 1994). All of these efforts have been done manually. Hence, all the data gathered need to be carefully examined to determine any meaningful themes and patterns to discuss on the process of managing *Zakat* fund in conducting CSR initiatives. The themes and patterns can be identified by preparing diagrams or charts to link the various issues from several sources of evidences (Ryan, Scapens, & Theobald, 2002). Besides that, Creswell (2007) suggested that if the case presents a chronology of event, researcher can analyze the multiple sources of data to identify evidence for each step or phase in the evolution of that particular setting (case). Throughout this process, the study has carefully designed, collected, analyzed and maintained the ethical code of research conduct to ensure the validity and reliability. Hence, several techniques have been employed such as data triangulation (Yin, 2009), member checking (Creswell, 2007), designing protocol for interviews and observations, peer reviewed and also creating case study database for data management (Yin, 2009).

## Findings and Discussion

### *Conception of CSR*

The first aspect of the study concerns is on the conception of CSR. There are various versions on CSR interpretation and most of respondents could not define CSR precisely except for one respondent;

For Bank Islam, CSR refers the business ethically responsible to its stakeholder. CSR initiatives carried out help the bank to conduct its business in an economically, socially and environmentally sustainable manner whilst balancing the interest of a diverse range of stakeholders. (Respondent 9)

The other respondents agree that CSR is about giving back to society and as a tool to help and develop communities (Respondent 7, Respondent 9, Respondent 12, Respondent 14, Respondent 15, and Respondent 16). Another dominance definition given by respondents is CSR in Bank Islam is highly related to *Zakat*; "Actually, I think CSR is *Zakat*. If we based on Islamic, if we can say Islamic CSR...it has been started for long years ago. Islam fully promotes .... that is why we have *Zakat*. We not term it as CSR. We name it as *Zakat*" (Respondent 1). This interpretation is shared by other respondents, namely Respondent 8, Respondent 9, Respondent 12, Respondent 16, Respondent 17 and Respondent 22. They relate the concept of CSR with religious obligation which is a mandatory obligation of business organization to conduct CSR initiatives; "... so, this is an obligation. There is no issue here. It (CSR) is worship (*ibadah*). If we look a mosque in a bad condition, we have to donate. That is worship for the benefits of society, which means for Allah's Cause (*fisabilillah*) (Respondent 8). In addition, according to 2010 Annual Report, the bank outlines that;

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. (2010 Bank Islam Annual Report, p. 156)

From the above statements in visualizing the concept of CSR, the bank is highly depended to *Zakat* fund in conducting CSR initiatives and CSR is about any actions that the bank does to be responsible banker to all stakeholders. This finding is supported by previous research that there is no universally accepted and clear definition of CSR (Argandona & Hoivik, 2009; Clarkson, 1995; Jamali, 2008; Nehme & Wee, 2008). However, many CSR scholars agree on the principle of CSR is about doing business sustainability, ethically, responsible to all stakeholders well being and will be influenced by environmental (internal and external) factors (Argandona & Hoivik, 2009; Clarkson, 1995; Panapanaan et al., 2003).

There is a unison view amongst all respondents (especially to all bank's officers) that the CSR practices in the bank has improved significantly for the last five years (after rebranding of the bank in 2007); "... now, after rebranding of the bank, a lot of improvements" (Respondent 6). Some of the respondents such as Respondent 1, Respondent 6, Respondent 7, Respondent 8, Respondent 12, Respondent 19, Respondent 22 and Respondent 23 mention that several aspects have been evolved such as CSR program itself, CSR philosophy and also CSR management of the initiatives, particularly to the designing and implementing of the program to be more structured and well planned. One of the respondent comments that; "The only thing is that... from day to day, we more creative, we improve a lot. Previously, we do it at arm-length. But



now, we come closer (to the community) and we find more gratitude in doing these kinds of things (Respondent 1). In addition, this issue also has been stressed by one of the respondent; "More structured approach. Previously, just ad hoc... something like that, more structured (Respondent 8). This finding may suggest that many organizations in Malaysia today are showed positive attitudes in practicing CSR even 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; Zulkifi & Amran, 2006).

In conducting CSR initiatives, Respondent 1 and Respondent 19 mention that the bank focuses on four pillars: (1) workplace/employee; (2) marketplace; (3) communities; and (4) environment. Interestingly, the focus of the bank is aligned with the four dimensions defined in the Bursa Malaysia CSR Framework – marketplace, workplace, environment and community. Furthermore, in doing so, the bank gives more priorities to community; "We have more on community. I think this area is we focus more... we have orphanage, build new home to underprivileged and many more (Respondent 1). She added that; "This is main target, because community projects cover education program in term of destitute also part of community, from health and indisposition also part of community, homeless also part of community issues... the coverage of community is wide" (Respondent 1). This argument has been agreed by several other respondents such as Respondent 6, Respondent 16 and Respondent 19. However, this finding is contradicted to the CSR disclosure research by theme which is normally companies in Malaysia are tend to disclose more CSR information on human resources (workplace) and product/services (marketplace) as compared to community involvement and environmental issues (Abdul Rahman et al., 2010; Abdul Rashid & Ibrahim, 2002; Janggu, Joseph, & Madi, 2007; Muhammad Jamil, Alwi, & Mohamed, 2003; Ramasamy et al., 2007; Said et al., 2009; Saleh, Zulkifi, & Muhamad, 2010; Teoh & Thong, 1984; Thompson & Zakaria, 2004). This conflict result may support the argument that CSR disclosure may not be enough to explain how the companies engage and sustain the relationship and contribution to stakeholders (Maignan et al., 2005) and may be the bank refuse to disclose or report those information (Mohd Ghazali, 2007).

Furthermore, all respondents in this study agree that CSR engagement is important and has a special value not only to the bank but also to the community that they served. Respondent 9 mentions clearly about the value of CSR to the bank;

Through 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)

Several respondents also comment that CSR is part of bank's DNA; "...we can have all... I think is more towards... if you embedded the culture of corporate responsibility as part of your DNA" (Respondent 9). This is because the natural alignment of CSR initiatives with business strategy and planning; "... all the products and the actions that we do, are already in line with business strategy" (Respondent 1). Again, the beauty of this practice is translated when the CSR elements

embedded in the bank's policies of financing; "When we evaluate the credit facility, we take that into account (CSR) in decision making process" (Respondent 9), products' development; "... so, our product is always tied to CR and our product has some CR quality in need. It starts from there" (Respondent 1), and combining the CSR events with business event or vice versa; "CSR is ... when the product will be launched, normally we combined the event with CSR activities, invite orphanage to join the event" or "If we have CSR event in school, we invite also parents to join the event. For instance, talk about Islamic banking... we have to do like that... that is business strategy" (Respondent 17). Furthermore, Respondents 19 also claims that CSR is part of business agenda; "For the company (bank), top management acknowledges that CSR is part of business agenda" (Respondent 19). Interestingly, this statement also has been stressed by one of the respondent saying that CSR is now becoming part of business agenda among other government linked companies (GLCs) member; "GLC in certain area, they also start making CR as part of their agenda for the whole year" (Respondent 9). In sort, the above findings align with the statement that the issue of CSR has been shifted from philanthropic to strategic CSR (McElhaney, 2009). Then, McElhaney (2009) defines strategic CSR as "a business that is integrated with core business objectives and core competencies of the firm, and from the outset is designed to create business value and positive social change, and is embedded in day-to-day business culture and operations" (p. 31).

In addition, a number of respondents also claim that Bank Islam has a social face; "So, Bank Islam, as Islamic corporate citizen. Being that, the expectation of people... you have to do that. If they want to build a mosque... they will come and ask bank for contribution. This situation is same goes to poor and underprivileged people... including universities and homeless people. So, besides they rely on the government, the next is corporate... Islamic corporate citizen... is carried the name. That is the reason" (Respondent 8). This statement also affirms by another respondent; "... people acknowledge that this bank is not just a place to get money, the bank also conducting CR program to help villagers, underprivileged and poor students. During *Ramadhan*, the bank provides money to them, buy new cloths to them... that is normal to bank" (Respondent 19). The finding also supports the argument on the Islamic banks have a social face (Maali et al., 2006; Mohammed, 2007).

Interestingly, when the researchers review the bank's website, all the above arguments have been supported with the following statement;

At Bank Islam, CR goes beyond donations, sponsorship and charity works. 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, n.d.).

Therefore, the study notices that many Malaysian companies are realized the important of CSR in their organization and they are active in promoting CSR activities (Malaysian Institute of Management, 2009). Referring to CEO of Bursa Malaysia Berhad, Dato' Yusli Mohamed Yusoff in his comment during 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 tool or marketing tool, but it has a strategic value for a company's ability to compete. Then, based on the above discussions, it shows that the bank has an innovative strategy in managing CSR activities. Therefore, the study illustrates the practices of Bank Islam in using *Zakat* fund to conduct CSR initiatives.

### *CSR management process of using Zakat fund*

The proposed framework has been illustrated in Figure 1. In this framework, there are four phases: establishing *Zakat* fund; designing; implementing; and control and evaluation. The four phases incorporate ten steps: (1) determining the amount of *Zakat* ; (2) paying the amount of *Zakat* to *Zakat* authorities; (3) receiving *Zakat* refund from *Zakat* authorities; (4) planning *Zakat* allocation; (5) assessing current practices; (6) confirming all *Shariah* principles and guidelines; (7) setting objectives, strategies, and policies of CSR initiatives; (8) implementing CSR initiatives with accordance to *Shariah* principles; (9) monitoring CSR initiatives; and (10) gaining stakeholders' feedback. These steps will be discussed in more details next.

### Establishing *Zakat* fund

#### *Step 1: Determining the amount of Zakat*

In Bank Islam, determination the amount of *Zakat* is done by Central Finance Division (accountants); "... but the calculation of *Zakat* is done by us... calculation on how much *Zakat* to be paid. Then, we say to the committee, now, you have this... with the approval of MD (Managing Director) and the related parties" (Respondent 22). Referring to the Document X (internal document) of Bank Islam (2012), the role and responsibilities of *Shariah* Supervisory Council (SSC) is "to advise the Bank on the planning, calculation and report of *Zakat* payment and distribution" (p. 19). The bank is obligated to pay business *Zakat*; "... *Zakat* 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). In addition, according to Respondent 23, the *Zakat* rate for Bank Islam is 2.5775%; "2.5775%, because we exceed 11 days. We follow calendar year, 365 days. Normally, 2.5%... we follow Islamic calendar. We operate for the full year and we based on AAOIFI standards. We give more, 2.5775% for those 11 days. But, the majority of companies is using 2.5%" (Respondent 23).

#### *Step 2: Paying the amount of Zakat to Zakat authorities*

In Malaysia context, *Zakat* should be paid to *Zakat* authorities; "Authority to collect the *Zakat* is *Zakat* authority" (Respondent 16). Then, since in Malaysia, religious is governed by state government, so the bank replicates the system that has been employed by Malaysian Pilgrim Fund (*Tabung Haji Malaysia*). This process has been stressed clearly by one of the respondent;

Since Malaysia is a federation country, has 11 states and religious is governed by each states, state list. According to federal constitution, so we have to go back to the states. But how do we want to distribute to all states? If we want to give at the equal amount, you can't do that. Perlis and Selangor have different size. So, we use the same methodology of what has been practiced by Malaysian Pilgrim Fund which is based on how much deposits come from that particular state. So, the amount to be given to the state is based on the deposits. So, we divide proportionately according to the size of the deposits of the state. So, the deposits from Perlis need to be determined from the total deposits, so the percentage driven will be determined the amount of *Zakat* to Perlis. Same method goes to all states and of course; Wilayah will get the huge amount of *Zakat*. (Respondent 16).

### *Step 3: Receiving Zakat refund from Zakat authorities*

Receiving *Zakat* refund from *Zakat* authorities is a strategic alliance between Bank Islam and several states of *Zakat* authorities such as *Lembaga Zakat Selangor and Pusat Pungutan Zakat Wilayah Persekutuan*. The rate of return is normally 3/8 or 4/8, base on the consensus of *Zakat* authorities. However, not all *Zakat* authorities are willing to refund the *Zakat* money and appoint bank Islam to distribute on their behalf; "... we make an arrangement with *Zakat* authorities... we pay *Zakat* to you, then, you refund a portion of *Zakat* for us to distribute on your behalf" (Respondent 16). There are several underlying reasons of why the bank needs this *Zakat* money. First and foremost is to establish *Zakat* fund to conduct CSR activities; "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 *Zakat* fund" (Respondent 16). Respondent 22 also supports that the bank needs *Zakat* fund to establish sufficient amount of CSR fund to conduct CSR initiatives; "... if we don't have this *Zakat* allocation... we don't have *Zakat* refund, so 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). Furthermore, another justifications of having *Zakat* refund is to play a role in developing Muslim's community; "We need that allocation because sometimes, public (poor and needy people) as well as customers come to the bank and they seek for *Zakat* contribution to repair their houses and any other reasons" (Respondent 6).

### Designing phase

#### *Step 4: Planning Zakat allocation*

In Bank Islam, *Zakat* fund is managed by *Zakat* committee and the members of this committee comprised representative of several business unit and division in Bank Islam; "We have *Zakat* committee. So, I 'm chairing the *Zakat* committee and the members including Anis (AGM of Corporate Communications), Head of Shariah department, head of various business unit and many more" (Respondent 8). The focus of beneficiaries (*asnaf*) is for three groups; which are needy/indigent (*fuqara'*), poor (*masakin*) and for Allah's Cause (*fisabilillah*); "Bank (Islam)... the *Zakat* fund... we focus to *fuqara'*, *masakin*, *fisabilillah*... only that" (Respondent 16). In planning *Zakat* allocation, the bank has one year after receiving the *Zakat* refund to distribute the *Zakat* to the beneficiaries; "After we get back from the *Zakat* authorities, we are not the payer anymore... now, we are distributor. So, we have one year after receiving the fund from *Zakat* authorities. But, we updating our *Shariah* Committee on quarterly basis" (Respondent 16). Furthermore, *Zakat* for a year before, will be distributed in the following year, for instance; "*Zakat* 2010, we get the amount refund in 2011, so we conduct the CSR event in 2011. From that we plan, how much we want to allocate to build homes for poor and needy people... how much we spent to underprivileged students at colleges and universities, including to UUM" (Respondent 16). Respondent 16 also states that the *Zakat* proposals may come from several channels such as: (i) *Shariah* division - for new Muslim's brothers and sisters (*muallaf*); (ii) Corporate communication - planned project - home projects; and (iii) Other business unit - Cash management - *Zakat* contribution to universities.

#### *Step 5: Assessing current practices*

After the *Zakat* has been allocated to the respective beneficiaries, the bank should assess the current practices of CSR activities before planning the future CSR program; "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). According to Maon et al. (2009), the

objectives of evaluation are to: (1) determine what work well, and why and how to ensure it will sustain; (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 if necessary. This assessment can be done by reviewing the post mortem meeting of the previous CSR program or benchmarking the current CSR practices.

*Step 6: Confirming all Shariah principles and guidelines*

Islam prescribes social responsibility as a religious bond which requires man or Muslim to balance the right and responsibility of individual and society like what has been stipulated by *Shariah* (Dusuki, 2008b). Respondent 1, Respondent 9, Respondent 16 and Respondent 22 affirm that in designing and implementing CSR initiatives, the bank must follow and confirm with all *Shariah* principles and guidelines such as *Shariah* Governance Framework (SGF) and *Shariah* audit to ensure *Shariah* compliance; "So, we have three departments, *Shariah* Review, then *Shariah* Advisory and Research and also *Shariah* Compliance Risk Management. These departments are established to comply with SGF of Bank Negara, *Shariah* Governance Framework. But the audit, *Shariah* audit is under internal audit, because we adopt three level of defense to ensure *Shariah* compliance" (Respondent 16). In general, several related parties should be referred such as; *Shariah* Supervisory Council (SSC); *Shariah* Review Committee, *Zakat* Committee and also *Shariah* Division to assist in confirming all *Shariah* principles and guidelines. Internal guideline such as Business *Zakat* Payment Guideline should be carefully examined to ensure that all CSR initiatives using the fund has been properly managed and distributed in accordance to *Shariah* principles.

*Step 7: Setting objectives, strategies, and policies of CSR initiatives*

In this step, all of the above planning should be translated into commitments, expectations and guiding principles in a concrete CSR programs and actions. In Bank Islam, paperwork (a proposal paper which consist the details of the program including budget and so on) needs to be prepared for each CSR program that will organize. The program should be carefully designed because it involves the *Zakat* money and selection of beneficiaries (*asnaf*) needs to be carefully examined. Nowadays, Bank Islam is very creative in designing CSR initiatives and a lot of improvements have been transformed (see the above discussion on CSR improvement). For instance, the bank has a strategic alliance with third parties like universities (in managing *Zakat* contribution to students); "Let universities manage (through Student Alumni Affairs Department). We give them guidelines in selecting the students and their parameters. Let universities decide their students" (Respondent 12), government agencies like Social Welfare Department (JKM), district office, and religious state council; "This year we have a project in Pahang, so could you (Pahang Religious Council) assist and identify who are the beneficiaries to get the homes... who are really eligible to get the home. Recommendation of beneficiaries comes from religious authority" (Respondent 16).

Implementing phase

*Step 8: Implementing CSR initiatives with accordance to Shariah principles*

It is the critical step, where a beautiful plan of CSR initiatives will be implemented. Ideally, the successful of CSR implementation needs full support from everybody within the organization and outside the organization, from top management to approve the budget and activities, employees that will conduct the activities and to the recipient of the CSR initiatives. In Bank

Islam, the CSR culture has been embarked and most of staffs are willing to involve in CSR initiatives. This statement has been mentioned by several respondents like Respondent 1, Respondent 8, Respondent 9, Respondent 12, Respondent 19 and Respondent 23. Employees may be willing to involve and support the CSR initiatives inherently if they are understand and aware about the concept of CSR (Maignan et al., 2005; Maon et al., 2009). Educating them (Beekun, 1997; Lu & Castka, 2009; Werre, 2003) through workshop, seminar and conference related to CSR is a chance for employees to create personal awareness and share the issues and knowledge of CSR across the organization.

Furthermore, the bank needs to ensure that the program has been implemented according to the time frame and the collaboration among departments involved is effectively coordinated.. For instance, the Home Project 2010 at Kampung Mata Ayer, Pokok Sena, Kedah, the project (a house) has been completed within 15 days; "Within two weeks... complete everything. At the 15th day, the house has been fully furnished" (Respondent 3). On top of that, the program should be conducted in proper way as per guided in the *Shariah* and in moderation mode (*wasatiyyah*) and discourage waste (Quran 7:31), avoid involve prohibited matters (alcohol, drug and gambling) and the most important thing, the program should provide a greater impact to the beneficiaries (*asnaf*) or society to improve the quality of life.

#### Control and evaluation phase

##### *Step 9: Monitoring CSR initiatives*

Monitoring of 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 work well, and why and how to ensure it will sustain; (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 if necessary. Alternatively, *Shariah* audit can be conducted to provide independent assessment and objective assurance designed to value added and improve on *Shariah* compliance (Bank Negara Malaysia, 2010) in CSR practices. Islam also encourages Islamic organizations for continuous improvement through evaluation process (Dusuki & Abdullah, 2007a) in a formal system such as performance appraisal to evaluate individual's job performance (Sadeq, 2001) on CSR activities. Moreover, 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).

##### *Step 10: Gaining stakeholders' feedback*

Communication is a mean to gain stakeholders' feedback (comments and suggestions). Stakeholders are encouraged to actively involved in CSR practices by volunteering participate or by giving feedback. This process will help to gain better understanding of current CSR issues and identify the new CSR issues. Moreover, the feedbacks from recipients of CSR initiatives are also important to measure and evaluate the effectiveness of the program. The findings suggest that all beneficiaries in this study (Respondent 2, Respondent 3, Respondent 4, Respondent 10, Respondent 11, Respondent 14, Respondent 18, Respondent 20, Respondent 24 and Respondent 25) conclude that the bank should continue and aggressively conduct more CSR initiatives to improve the well-being of society. Ongoing stakeholders' dialogue and collaboration with key stakeholders are believed can improve the effectiveness of CSR engagement (Maon et al., 2009).

### *Continuous communications and reporting of CSR*

In order to increase CSR effectiveness, efficiency, and awareness, continuous communications and reporting of CSR initiatives should be considered as an important effort for each phase. For bank Islam, Respondent 1, Respondent 7, Respondent 12, Respondent 17 and Respondent 19 mention that among the channel of communications that have been used like internal email, internal portal, bank's meeting, bulletins, progress reports, and magazines for internal stakeholders. For external stakeholder's purposes, formal organizational documents such as annual reports, separate CSR reports, and brochures have been used as to communicate CSR initiatives. In addition, newspapers, electronic media and traditional advertising (e.g. campaign) is widely used to keep updates the stakeholders of their CSR activities. However, in Islamic perspectives, the objectives of communicating and reporting are to show the *Shariah* compliances have been taking care and to demonstrate the responsibility, accountability and transparency with beyond the society and include Allah and environment (Haniffa & Hudaib, 2007). Pertaining to *Zakat* fund management, the bank should provide a detail report to all *Zakat* authorities on the *Zakat* distribution and to update the SSC regularly on the *Zakat* fund management.

Specifically, Bank Islam follows Silver Book Guideline for CSR reporting and the objective of doing so is to share this practice (using *Zakat* fund to conduct CSR initiatives); "We follow Silver Book... in term of 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 that more participations from the industry. I think that has been successful. For example, *Zakat* is simple... the moment people realize that *Zakat*... mean... the organization can use *Zakat* fund to contribute to CR activities" (Respondent 9). Moreover, Islam urges for truthfulness in disclosing all information whether such information could give a good or bad image to the organizations (Maali et al., 2006). Thus, the concept of *Tawhid* requires Islamic business entity to be transparent and full disclosure of 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, Corporate Communications Division of the bank is obligated to coordinate all information that will release to the public and manage all communication channels of the bank. Furthermore, the division has to maintain a good relationship with media players as part and parcel of image building; "Now, we engage somebody who is expert in branding. We hire a branding advisor to handle this matter. He will connect us with media and newspaper operators. Previously, we don't have a good relationship with media. That relationship we don't manage it wisely. That is why previously, Bank Islam's name is not exposed to the public (not well recognized) as compared to now" (Respondent 16). In addition, the Reporting Unit has been established under Corporate Communications Division to produce an informative and attractive Annual Reports of the bank. The findings align with the previous literature which suggests that Corporate Communication Department needs to have a good relationship with media of getting the positive stories released and work together with investor relation unit to produce annual reports (Waddock, 2009). These efforts are designed to enhance awareness of organization's CSR indicatives (Maignan et al., 2005; Werre, 2003) and to increase the organizations' image in the eyes of public.

Generally, the proposed framework also affirms that CSR practices are unique and different companies practice different CSR strategies and approaches (Argandona & Hoivik, 2009; Hanke & Stark, 2009). This statement has been supported by Argandona and Hoivik (2009) “there is no set of universal “best practices” in CSR” (p. 229). This phenomenon may be able to be explained by some internal and external factors of the bank that influence CSR practices. However, this managerial framework is more suitable to any organizations that use *Zakat* fund for CSR engagement. The first three steps cover the process of establishing CSR fund (financial resources) to conduct CSR initiatives. If the organizations use any other types of CSR fund (for instance; allocation or budgeted CSR), they can replace the first three steps according to their preference of CSR fund. Meanwhile, the rest of the steps (step 4 until step 10) are applicable to be practiced in managing any kind of CSR initiatives.

## **Conclusion**

The issue of CSR has received an increasingly high profile in recent years all over the world. In Islamic perspectives, social responsibility of business entity is broadly discussed in many *Quranic* verses and *Hadith* because it relates to the concept of *Tawhid* and *Shariah Islamiyyah*. The aim of this study is to understand the CSR management process of BIMB in managing *Zakat* fund as well as the value of CSR engagement to the Bank Islam by using qualitative case study approach. The wide coverage of respondents which include all CSR players in designing, implementing and receiving CSR initiatives provide a good avenue to illustrate the CSR management process in Bank Islam. The findings of the study suggest that CSR has been perceived as about giving back to society and highly associated with *Zakat* and *Zakat* management because substantive amount of CSR fund is derived from *Zakat* fund. Then, the study suggests that CSR in Bank Islam is an old practice but new terminology because the bank does not fail to pay *Zakat* regardless of profit or loss. Another interesting finding of this study is the main focus of CSR activities in CSR disclosure and real practices is slightly difference. In CSR disclosure and reporting, the workplace and marketplace themes have been extensively disclosed as compared to the community whereas in the real practices, the focus more on the community projects than the other area of CSR. Besides that, the various interpretations of CSR give an avenue for future research to investigate the connection and the alignment of *Zakat* and CSR notion in Islamic perspective. Furthermore, the proposed framework also affirms that the CSR management process is unique and different companies practice differently and they are in struggling to formulate the best practices of CSR. Possibly, the framework could be used by other *Zakat* paying organizations to conduct CSR initiatives using *Zakat* fund. Hopefully, the framework will help managers and policy makers in enhancing and strengthening the CSR strategies with accordance to *Shariah* principles and guidelines.



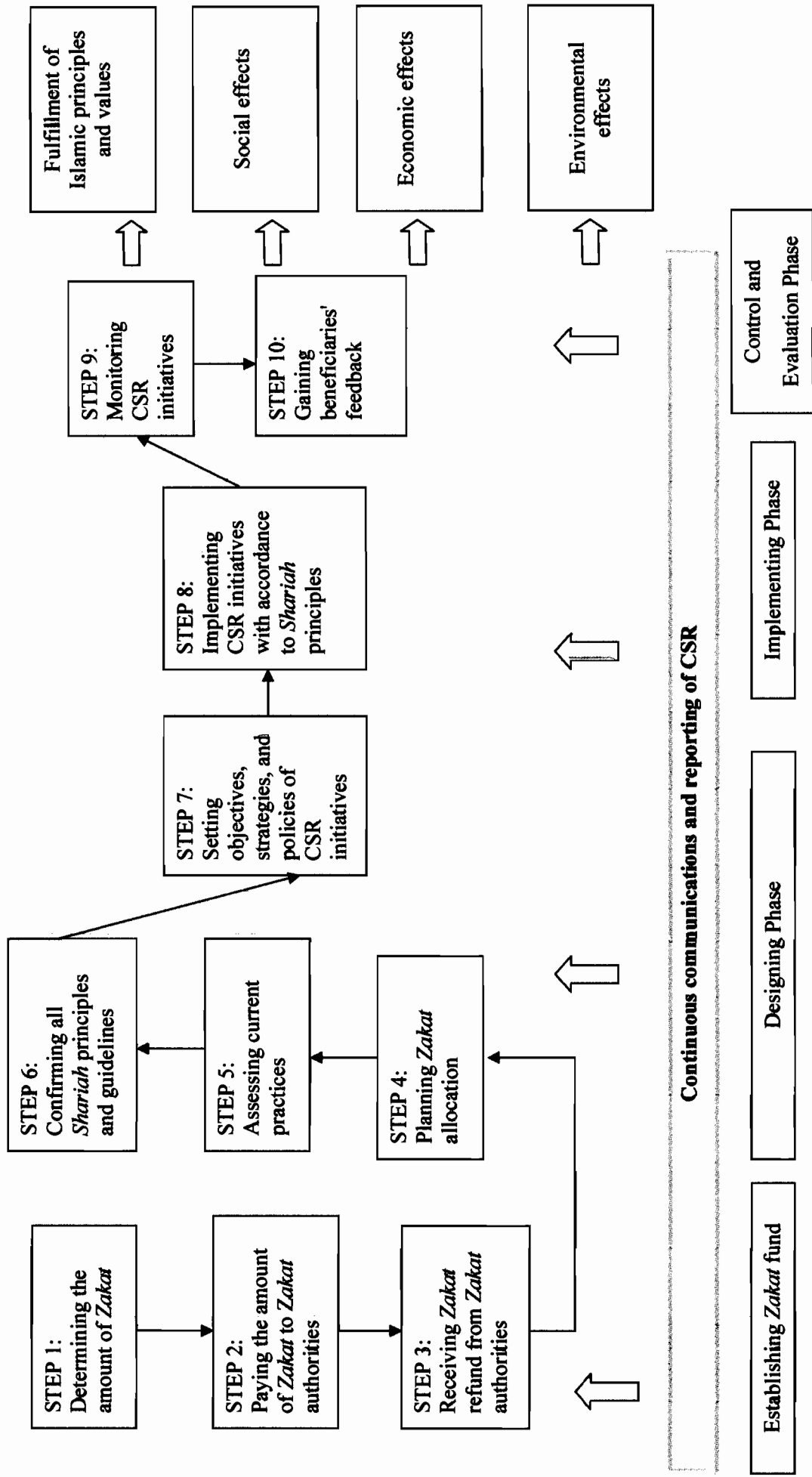


Figure 1: Proposed framework on CSR Management Process of *Zakat* Fund

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13	Branch Manager, BIMB UUM	2	Male	Host branch manager of Zakat contribution in UUM
14	Deputy Vice-Chancellor (Student and Alumni Affairs), UUM	3A	Male	Representative of UUM in managing Zakat contribution of Bank Islam
15	Branch Manager, BIMB Kulim	2	Male	Host branch manager of Home Project 2011, Kulim, Kedah
16	Head, Shariah Department	1	Male	Secretary of Shariah Supervisory Council (SSC)
17	Regional Consumer Business Manager Kedah/Perlis	2	Male	Committee member of any CSR initiatives in Kedah/Perlis
18	Kulim Social Welfare Officer, Pejabat Kebajikan Masyarakat Daerah Kulim	3A	Male	Responsible officer in managing Home Project 2011, Kulim, Kedah
19	Assistant Manager, Corporate Responsibility, Corporate Communications	2	Female	Bank's officer in managing CSR initiatives pertaining to Zakat fund
20	Principal, Sekolah Kebangsaan Kuala Kupang, Kedah	3A	Male	PINTAR Program (2012)
21	Vice Principal I, Sekolah Kebangsaan Kuala Kupang	3A	Male	PINTAR program (2012)
22	Assistant General Manager, Central Finance, Finance Division	2	Female	Member of <i>Zakat</i> committee
23	Manager, Accounting and Operations, Finance Division	2	Male	
24	Beneficiary of Home Project 2011, Kulim, Kedah	3B	Female	Invigilator of Rumah Cahaya Sungai Tengah, Kulim, Kedah
25	Beneficiary of Home Project 2011, Kulim, Kedah	3B	Female	Resident of Rumah Cahaya Sungai Tengah, Kulim, Kedah

Note: The respondent number is according to chronological order of interview sessions.