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Managing CSR Initiatives from the Islamic Perspective: The Case of Bank Islam Malaysia Berhad (BIMB)

(Mengurus Inisiatif-Inisiatif Tanggungjawab Sosial Korporat Menurut Pandangan Islam: Kajian di Bank Islam Malaysia Berhad (BIMB))

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ABSTRACT

From the Islamic perspective, corporate social responsibility (CSR) is a mean to maintain a good relationship with Allah (SWT), other human beings and the environment. However, the process of managing CSR initiatives in accordance with Islamic principles has been given scarce attention in the literature. Thus, this study aims to describe and develop a managerial guideline for the process of managing CSR initiatives based on the Tawhid and Shariah paradigms. Using the case study approach, CSR key players and beneficiaries at Bank Islam Malaysia Berhad were interviewed, several series of in-field observations of these events were conducted and the CSR documentation was reviewed to better understand the processes involved. The findings of this study indicate that the processes of managing CSR initiatives at Bank Islam have become more systematic and well-planned. Hence, the proposed managerial guideline may add new insights to the CSR body of knowledge and may help business entities to manage CSR more systematically.

Keywords: Corporate social responsibility (CSR); CSR management process; Tawhid and Shariah paradigm; case study; Bank Islam

ABSTRAK

Menurut pandangan Islam, tanggungjawab sosial korporat (TSK) adalah satu cara untuk mengukuhkan hubungan yang baik kepada Allah (SWT), sesama manusia dan juga persekitaran. Walau bagaimanapun, proses menguruskan inisiatif-inisiatif TSK yang berlandaskan prinsip Islam kurang mendapat perhatian di dalam kajian. Oleh itu, kajian ini bertujuan untuk menerang dan mencadangkan satu garis panduan pengurusan untuk menguruskan inisiatif TSK berdasarkan paradigma Tawhid dan Syariah. Dengan menggunakan kaedah kajian kes, pengendali utama TSK dan penerima bantuan di Bank Islam Malaysia Berhad telah ditemu bual, beberapa siri pemerhatian terhadap acara TSK telah dijalankan di samping dokumentasi acara tersebut telah disemak dalam usaha untuk lebih memahami proses berkenaan. Dapatan kajian ini menunjukkan bahawa proses mengurus inisiatif CSR di Bank Islam telah berubah menjadi lebih sistematik dan teratur. Maka, cadangan garis panduan ini mampu menambahkan pandangan baharu terhadap kerangka ilmu TSK dan membantu entiti perniagaan untuk menguruskan TSK secara lebih sistematik.

Kata kunci: Tanggungjawab sosial korporat (TSK); proses pengurusan TSK; paradigma Tawhid dan Syariah; kajian kes; Bank Islam

INTRODUCTION

The issue of corporate social responsibility (CSR) has been receiving greater attention in recent years all over the world. CSR covers a wide range of areas, such as business ethics, corporate governance, socially responsible investments, environmental sustainability and community investment. For this study, CSR is viewed from the Islamic perspective, which suggests that CSR engagement is a mean for companies to fulfill their religious, social and economic responsibilities and accountabilities in order to maintain good relationship with Allah (SWT), other human beings and the environment. The ultimate objectives of engaging in CSR activities are to attain *barakah* (Allah's blessings) and *al-falah* (well-being) in this life and the Hereafter. Hence, all business players should innately engage in CSR initiatives to fulfill their religious, social

and economic obligations to the various stakeholders, such as employees, customers, shareholders, the society and the environment.

In fulfilling these responsibilities and accountabilities, companies may conduct and manage their commitments systematically to maximize the benefits, such as engagement with stakeholders. The CSR management process is unique and different companies practice different CSR strategies and approaches (Argandona & Hoivik 2009; Hanke & Stark 2009; Lindgreen, Swaen & Johnston 2009). The CSR management process may include, among others: processes for management and board responsibilities, identification of stakeholders' expectations, strategic planning, managing resources, processes and systems, measurement and analysis, managing change and continual improvement (Castka, Bamber, Bamber & Sharp 2004); and five essential

activities, namely: (i) organization and structure; (ii) planning; (iii) implementation; (iv) monitoring and evaluation; and (v) communication and reporting, which require commitment, time and resources for the benefit of employees, community members, suppliers and customers (Panapanaan, Linnanen, Karvonen & Phan 2003).

However, there is limited empirical work on how these initiatives are being managed, especially from the Islamic perspective. Most of the existing guidelines on the CSR management process are based on the conventional concept of CSR and the experience of Western companies which is different in terms of the contextual settings. According to Mohammed (2007) and Shareef, Arunachalam, Sodique and Davey (2014), the contextual setting is influenced by socio-economic, cultural and religious backgrounds. Therefore, to the best knowledge of the researchers, this is the first study on this topic in Muslim countries, like Malaysia, to provide new evidence on the CSR management process from the Islamic perspective. Due to the lack of CSR managerial guidelines, many companies consider that these initiatives are no more than philanthropic activities and they are struggling to develop good CSR practices (Macarthur 2009) to fulfill the various stakeholders' demands.

By conducting a case study at Bank Islam Malaysia Berhad (Bank Islam), this study aims to describe and develop a managerial guideline on the process of managing CSR initiatives based on *Tawhid* and *Shariah* paradigms. These two paradigms are derived from *Al-Quran and As-Sunnah* to govern mankind in this life and the Hereafter. This principal urges Muslim corporate players to be involved actively in CSR initiatives in order to fulfill social obligations towards their stakeholders, such as employees, shareholders, customers, the community and the environment, to attain *al-falah*. Bank Islam, as an Islamic bank, the bank has a religious obligation (Basah & Md Yusuf 2013; Darrag & E-Bassiouny 2013; Sairally 2013) towards the society to conduct the business in accordance with the *Shariah* and to integrate a social agenda in its business objectives, strategies and culture (Ahmed 2016; Arshad, Othman & Othman 2012; Basah & Md Yusuf 2013; Mohd Nor & Asutay 2011; Wan Abdullah, Percy & Stewart 2011; Wan Jusoh, Ibrahim & Mohd. Napiyah 2015). Further, the Islamic bank has been perceived as having a social face or role (Arshad et al. 2012; Mohammed 2007; Sairally 2013), whereby the bank is not only responsible for making profits but also to help the surrounding society and community (Abdul Rahman, Md Hashim & Abu Bakar 2010; Dusuki 2008a; Maali, Casson & Napier 2006; Yusof & Bahari 2011). Islamic banks should consider these additional obligations towards the surrounding community as part of *fard kifayah* (collective obligation) (Farook 2007).

The remainder of this study is organized as follows: First, previous studies on the concept of CSR and the process of managing CSR initiatives are reviewed. This is followed by the research method and design. Third, the findings

and a brief discussion of the findings are presented, and a managerial guideline on CSR management is proposed. Finally, some concluding remarks are presented.

LITERATURE REVIEW

THE CONCEPT OF CSR

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

The concept of CSR has evolved from its definitions, problems and practices. Most of the previous studies on CSR have been done in Western countries to respond to their issues and problems (Thibos & Gillespie 2011). However, it is argued that the Western CSR concepts are not able to explain the variations in the contextual settings which are influenced by the socio-economic, cultural and religious backgrounds (Mohammed 2007; Shareef et al. 2014). The differences in contextual setting may influence how people and organizations define CSR, and accordingly, may influence how they manage these activities. The Western economic, political and social contexts may differ from the Muslim context in regions, such as Asia and the Middle East, where the business practices of companies are influenced by religion and spiritual values (Dusuki & Yusof 2008). In addition, some CSR researchers argue that the Western CSR philosophy and frameworks (including the concepts and disclosure aspects) are limited in that they: (i) lack an understanding of moral or religious obligations (Haniffa 2002; Parvez & Ahmed 2004); (ii) lack a comprehensive global context based on the diverse socio-cultural and religious settings all over the world (Mohammed 2007); (iii) fail to provide adequate ethical guidance (Dusuki & Abdullah 2007); (iv) are based on materialistic philosophy (Alhabshi 1987; Haniffa 2002); (v) lack a focus on the prioritization of social objectives (Darus et al. 2013); and (vi) reflect humanistic theories (Dusuki 2008b; Dusuki & Abdullah 2007) and secular ethics and morality (Darrag & E-Bassiouny 2013).

In contrast, the concept of CSR from the Islamic perspective needs to be understood from its roots and encompasses a broader view because it is based on the *Al-Qur'an* and the *As-Sunnah*. These two main sources

form the primary philosophical framework to manage the relationship of man with Allah (SWT), with nature and with other human beings. The relationship is governed by the concept of *Tawhid* (the unity of Allah) where Allah (SWT) is the Creator, Owner, the Absolute, and the Ultimate (Quran 39: 44); and the *Shariah*. Thus, in this study, the concept of CSR and CSR management process is discussed using the *Tawhid* and *Shariah* paradigms. Under the concept of *Tawhid*, an individual has to maintain a good relationship not only with Allah (SWT) (*hablun min Allah*), but also with other creatures, which include human beings (*hablun min an-nas*) and the environment (*ihsan*) (Afridi & Navaid 2006; Ahmad 2001; Hanafy & Sallam 2001; Haniffa & Hudaib 2002; Muwazir, Muhamad & Noordin 2006). In Surah Ali-Imran, Verses 103 and 105, Allah (SWT) enjoins Muslims to have a strong faith (*taqwa*) in Allah (SWT) and encourages unity among Muslims to safeguard their collective well-being.

Further, a Muslim business person has to realize that Allah (SWT) is always watching and knows everything, including what is in the heart (Quran 64: 4). As a result, Islam encourages Muslims to conduct business in accordance with the commands of Allah (SWT) and *Shariah* and to see it as a part of worship (Bank Islam Malaysia Berhad 1994). Dusuki and Abdullah (2007: 30) define *Shariah* as, “a complete and integrated code of life encompassing all aspects of life, be they individual or social, both in this world and the Hereafter”. It covers the entire aspects of Islamic life, including beliefs, morality and principles which guide economic, political and cultural codes of conduct of Muslim individuals and communities. Thus, engaging in business activities is a form of obedience to Allah (SWT) and serves a socially useful function (Rice 1999). Therefore, the social responsibility of Islamic organizations is not just a matter of legal obligations or a matter of fulfilling the material rights of shareholders; it is also a spiritual and moral obligation that secures the existence of the business as well as the society (Ahmed 2016; Parvez & Ahmed 2004).

Dusuki and Abdullah (2007: 34) conceptualize CSR from the Islamic perspective as a moral and religious initiative based on the belief that a corporation should consider other responsibilities, such as moral and social responsibilities, for the well-being of various stakeholders, such as consumers, employees, shareholders and local communities, rather than solely focusing on profit maximization. In other words, a Muslim company has three main responsibilities: (i) moral/religious; (ii) social; and (iii) economic responsibilities (Chapra 1992). Hence, the integration of religious responsibility in the Islamic concept of CSR (Farook 2007; Jamali Zanhour & Keshishian 2009; Mohd Nor & Asutay 2011; Parvez & Ahmed 2004) requires all Muslim business players to practice naturally the concept and integrate the CSR culture into day-to-day business operations as well as religious and spiritual activities (Muwazir et al. 2012; Wan Jusoh et al. 2015), such as religious talks and

discussions to improve Muslims’ understanding about Islam and its teachings.

In a similar vein, engaging in CSR initiatives is considered as part of worship and obedience to Allah (SWT) (Rice 1999) in order to deserve rewards not only in this life but also in the Hereafter (Quran 62: 10) if they are performed in accordance with Allah’s will and *Shariah* principles to achieve the objectives of *Shariah*. Indeed, CSR engagement in the Islamic context is necessary for individuals who have a sense of responsibility and accountability not only to their employer but ultimately to Allah (SWT) (Haniffa & Hudaib 2002; Sadeq 2001). Thus, to fulfill these responsibilities, companies may need to have a good CSR management process.

CSR MANAGEMENT PROCESS

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

The CSR management process appears to be a ‘secret recipe’ of companies that are socially responsible. In order to understand the concept of CSR, the basic process of allocating the resources of the business to social initiatives and ensuring the effective measurement of the impact of implementing social programs on all stakeholders needs to be considered (Godfrey & Hatch 2007). For instance, Arshad et al. (2012) claim that companies may carefully manage their stakeholders’ expectations by designing business strategies through the CSR engagement. Thorne, Ferrell and Ferrell (2008) propose a framework to manage social responsibility from the stakeholders’ perspective. The framework has six steps: (i) assessing the corporate culture; (ii) identifying stakeholder groups; (iii) identifying stakeholder issues; (iv) assessing the organization’s commitment to social responsibility; (v) identifying resources and determining urgency; and (vi) gaining stakeholder feedback. This framework focuses on managing stakeholders in the process of managing responsibility and business ethics (Thorne, Ferrell & Ferrell 2008). Therefore, in managing the CSR initiatives, stakeholders and their issues should be carefully determined in order to maximize the value of CSR activities.

Due to limited studies on the CSR management process from the Islamic perspective, this study reviews several frameworks or models that have been proposed in the Western contextual settings, such as in the work of Werre (2003), Castka et al. (2004), Panapanaan et al. (2003), Maon et al. (2009), and Maignan et al. (2005). In addition, a few studies on CSR engagement from developing countries, such as by Jamali et al. (2009) and Jamali and Mirshak (2007) in Lebanon; Katamba et al. (2012) in Uganda; and Shareef et al. (2014) in the Maldives are also reviewed. For instance, studies on CSR engagement in developing countries have failed to offer a managerial guideline to manage CSR in a systematic way. Such a guideline would be useful to help companies that want to embark on CSR activities. Generally, the studies reveal that even though most companies do not formalize or integrate CSR into their strategic processes, they do engage in and commit to CSR practices in order to fulfill their religious beliefs; most of the programs are seen as philanthropic or discretionary type activities (Jamali & Mirshak 2007; Jamali et al. 2009; Shareef et al. 2014).

Moreover, in the Lebanese companies, the CSR practices are perceived by their managers as non-systematic, non-structured and non-formalized operating procedures/strategic processes and most of the CSR initiatives are ad-hoc and fragmented (Jamali & Mirshak 2007). Although the CSR practices in Lebanon and the Maldives where the population largely comprises Muslims and therefore are tied to Islamic values, the CSR concept is still not well understood and recognized as one of the strategic investment opportunity for companies' sustainability (Jamali & Mirshak 2007; Jamali et al. 2009; Shareef et al. 2014).

In sum, the prior models of CSR management are not adequate to explain the Islamic concept of CSR due to the following reasons: (i) the models or frameworks do not recognize the responsibilities of companies to Allah (SWT) (*hablun min Allah*); (ii) the models are based on humanistic faith and arguments; and (iii) the models are based on materialistic philosophies and lack religious or spiritual elements. Thus, the present study aims to develop a managerial guideline on the CSR management process from the Islamic perspective which is based on the *Tawhid* and *Shariah* paradigms. In addition, prior studies on the CSR engagement of Islamic business entities, including Islamic banks and other business entities, do not explicitly reveal how the businesses manage and implement CSR initiatives (Jamali & Mirshak 2007; Jamali et al. 2009; Mohammed 2007; Sairally 2013).

Another issue in managing CSR initiatives is communicating and reporting. From the Islamic perspective, the reporting and disclosure of CSR information to publicly-accessed communication channels, such as in the annual reports and company websites, is for the purpose of demonstrating accountability to Allah (SWT) and other business stakeholders. In this sense, the disclosure of social commitments of companies is considered as part of the requirement in the Islamic accounting framework

whereby the society has a right to know how the activities of organizations will affect the society's well-being (Maali et al. 2006). In Islamic accounting disclosure, two important aspects are identified: a form of social accountability and a rule of full disclosure (Baydoun & Willett 2000; Haniffa & Hudaib 2002). The objective of Islamic accounting information is to assist Muslim users in making economic and religious decisions (Haniffa & Hudaib 2002; Muwazir et al. 2006).

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

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

METHODOLOGY

In conducting this study, a case study approach is used to discuss, understand and explain the concept of CSR and the process of CSR management from the Islamic perspective at Bank Islam. This qualitative case study is concerned more with understanding and describing a process rather than behavioral outcomes. This study is based on the experience of the bank which is a pioneer in exploring and developing the Islamic banking system in Malaysia. With 30 years' experience as a major Islamic

bank and named the Best Islamic Bank in Malaysia by the Islamic Finance News in the Best Banks Poll 2012 (Bank Islam Annual Report 2012), the bank was ready to share its experiences in conducting CSR activities to be a responsible and prudent corporate citizen (part of the mission statement of the bank). Moreover, the bank has won several other awards, such as the “Corporate Social Responsibility Program of the Year (Bronze)” at the Asian Banking and Finance Awards 2013 (Uy 2013), the “Gold” for “Best Annual Report in Bahasa Malaysia” in the National Annual Corporate Report Awards 2012 and the Malaysia Service to Care Awards 2011 and 2012 for the Islamic Bank category by MarkPlus, Inc. (Bank Islam Annual Reports 2011, 2012).

Therefore, in order to understand the groundwork of managing CSR initiatives, key CSR players at the bank as well as the beneficiaries of the CSR initiatives were interviewed. The semi-structured interview method was used to conduct interviews with 29 respondents who were divided into three groups: (i) managerial team; (ii) operational officers/staff; and (iii) beneficiaries (organizational and individuals). The strength of this study is the involvement of the beneficiary group to obtain their feedback and perspectives on the value and impact of the CSR programs. These respondents were directly involved in designing, implementing, monitoring or receiving the CSR initiatives. Hence, their input and views are meaningful to develop an understanding of the CSR management process from the Islamic perspective. Furthermore, six in-field observations and an analysis of the CSR reporting and documentation were employed to have an overview of the whole process. The corporate formal CSR reporting, including the annual reports and corporate website, as well as the internal CSR guidelines, was reviewed to support the arguments and to draw the findings.

The data from these three sources were converted into analyzable text which could be reduced, displayed and used to draw conclusions (Miles & Huberman 1994). The interview data for this study were analyzed according to the steps recommended by Miles and Huberman (1994) and Creswell (2007), including transcribing the interview verbatim, thematic analysis, identifying patterns, explanations and flow of processes and finding a story line formulated from sub-themes and main themes. Then, for the documentation analysis, all the relevant documents were analyzed through qualitative content analysis by identifying themes or categories (Bryman & Bell 2011).

FINDINGS AND DISCUSSIONS

CSR PRACTICES AT BANK ISLAM

As an Islamic business organization, Bank Islam is perceived as a bank with a social face. This stakeholders’ aspiration obliges the bank to actively engage in CSR

activities. For Bank Islam, CSR is considered as an integral part of its duty to fulfill religious, social and economic responsibilities to the various stakeholders, such as employees, customers, community members, business partners and also the environment.

For instance, Respondent 9 claimed that, “For Islamic banking, [CSR] is a must and it is part of your relationship with the other people”.

Other respondents claimed that the bank engages in CSR for two interrelated reasons, which are to fulfill religious obligations (as part of *fard kifayah*) by developing the community surrounding the business and promoting the name of Bank Islam as well as Islamic banking products and services. These two objectives are clearly a part of the bank’s CSR agenda to fulfil: (i) religious; (ii) social; and (iii) economic obligations. In this sense, Muslim business players are encouraged to spend their wealth to help the poor and needy to improve their well-being and to promote social justice, *barakah* and *al-falah* in this life and the Hereafter (Dusuki & Abdullah 2007; Haniffa & Hudaib 2002; Mohammed 2007).

In addition, the bank claimed that it had engaged in CSR activities since the first day of its incorporation through the payment of business *zakat* (obligatory alms giving) regardless of whether the business made a profit or a loss. In the three years up to 2012, the bank paid and distributed almost RM30 million worth of *zakat* to enhance the well-being of society (Bank Islam Annual Report 2012). Based on its commitments and experiences in creating value for various stakeholders, Bank Islam is aware of the benefits of engaging in CSR initiatives for both the short and long terms:

Bank Islam believes in corporate responsibility [“CR”] being the cornerstone of good business. The bank’s philosophy is as much about looking after the health of the society as creating wealth for itself. As a responsible citizen of today’s rapidly changing global community, Bank Islam will continue to strive to adapt to the evolving society’s needs and contribute to the overall wellness of the places it operates in.

(Bank Islam Annual Report 2013: 124)

Therefore, this finding is aligned with prior studies that claimed Islamic banks engage in CSR initiatives to fulfill religious, social and economic obligations to the Muslim society (*ummah*) (Ahmed 2016; Dusuki 2008a; Dusuki & Abdullah 2007; Farook 2007; Sairally 2013). Many scholars claimed that Islamic banks have a social obligation towards society and the environment surrounding the business (Ahmed 2016; Wan Jusoh et al. 2015) by paying business *zakat* and also engaging in more CSR initiatives for the society’s development. Muslim stakeholders are also required to encourage the Muslim business entities to be actively involved in social activities by giving full commitments to their CSR initiatives (Arshad et al. 2012). Furthermore, most of the CSR activities at Bank Islam focus on community projects, such as the rehabilitation and rebuilding of homes project, the “Promoting Intelligence, Nurturing

Talent and Advocating Responsibility” (PINTAR) program in schools, poverty reduction projects, unity programs and care of senior citizens and the homeless program.

PROCESS OF MANAGING CSR INITIATIVES

Based on the findings, this study suggests that there are four phases in managing the CSR initiatives: environmental scanning, designing, implementing, and evaluating. All these phases must adhere to all *Shariah* principles. There are ten steps in the CSR management process: (1) assessing external factors; (2) discovering organizational conditions/norms/values; (3) identifying stakeholders and their issues; (4) conforming to the *Shariah* principles; (5) determining the organization’s CSR framework/policies; (6) assessing current practices; (7) setting objectives, strategies, and policies of CSR initiatives; (8) implementing CSR initiatives in accordance with *Shariah* principles; (9) monitoring and gaining stakeholders’ feedback on CSR initiatives; and (10) measuring CSR initiatives (see Figure 1).

Environmental Scanning The purpose of conducting environmental scanning is to assess the external and internal organizational factors that are likely to influence the CSR initiatives. One of the main activities in this phase is to identify the stakeholders and their issues. In managing the stakeholders, the bank can examine carefully all stakeholders (internal and external stakeholders) because they are important to the bank (Respondent 28) and to establish a good relationship with them.

For example, one respondent said,

At Bank Islam, we believe that one of the ways to build better reputation of the bank is through the efficient sustainable management of stakeholders. This will help the bank to preserve market position, profit margins and organizational vitality (Respondent 9).

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

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

The bank responds to the changes pro-actively in order to stay ahead in the industry. To increase an organization’s sensitivity to outside issues, Werre (2003) introduces two methods: the stakeholder dialogue and

scenario analysis. The stakeholder dialogue is conducted by organizing working groups among the interested stakeholders, such as consumers, employees, shareholders and the local community to understand their issues and in the scenario analysis method, the organization needs to identify and prioritize the trends (driving forces) that shape the future and from that a small number of scenarios can be formulated (Werre 2003).

Designing CSR Initiatives In conducting the CSR initiatives, the bank focuses on four pillars (as suggested by Bursa Malaysia’s CSR Framework): (1) workplace/employees; (2) the marketplace; (3) the community; and (4) the environment (Respondent 1, Respondent 9, Respondent 19 and Respondent 28). These dimensions cover a range of stakeholders and their issues, such as customers’ and depositors’ concerns about the marketplace, employees’ benefits in the workplace, environmental issues, societal development and welfare of the community. However, as an Islamic business entity, the bank can consider another dimension, which is religious obligation, to fulfill its religious responsibilities and accountabilities to attain *al-falah* and *barakah*. Therefore, this study proposes that the bank may need to explicitly mention the religious pillar as part of its CSR initiatives. For this, the bank can conduct more religious talks and seminars on Islamic teachings as well as Islamic banking and finance to improve Muslims’ understanding of Islamic values.

Bank Islam has become very creative in designing its CSR initiatives and many improvements have been made over time, including the approaches, management process of the program as well as the education program itself (Respondent 1, Respondent 16 and Respondent 28). For instance, the bank forms strategic alliances with third parties to determine the recipients of the *zakat* fund and employs a niche strategy to position such activities (Respondent 1, Respondent 12, Respondent 19 and Respondent 28). Furthermore, the bank places higher priority on community projects because these cover a wide spectrum, including the educational program, welfare of senior citizens, orphanages, single parents and the homeless, building new homes for the underprivileged and supporting health services. Of late, the bank has preferred to combine two or more pillars into one CSR program in order to maximize its impact (Respondent 1 and Respondent 17). For instance, the Home Project at Pokok Sena, Kedah is a program which combines two CSR pillars (marketplace and community).

Implementing CSR Initiatives Since the first day of its incorporation, the bank has engaged in a variety of CSR programs, such as home projects all over Malaysia, PINTAR program, *zakat* distribution to universities in Malaysia, *Mengubah Destini Anak Bangsa* (scholarship fund), *Manjadda Wajada* program and sponsorship of the television (TV) program, *Madrasahku Syurgaku*. Ideally, CSR implementation must receive the full support of all parties (inside and outside the organization): the top management to approve the budget and activities, the

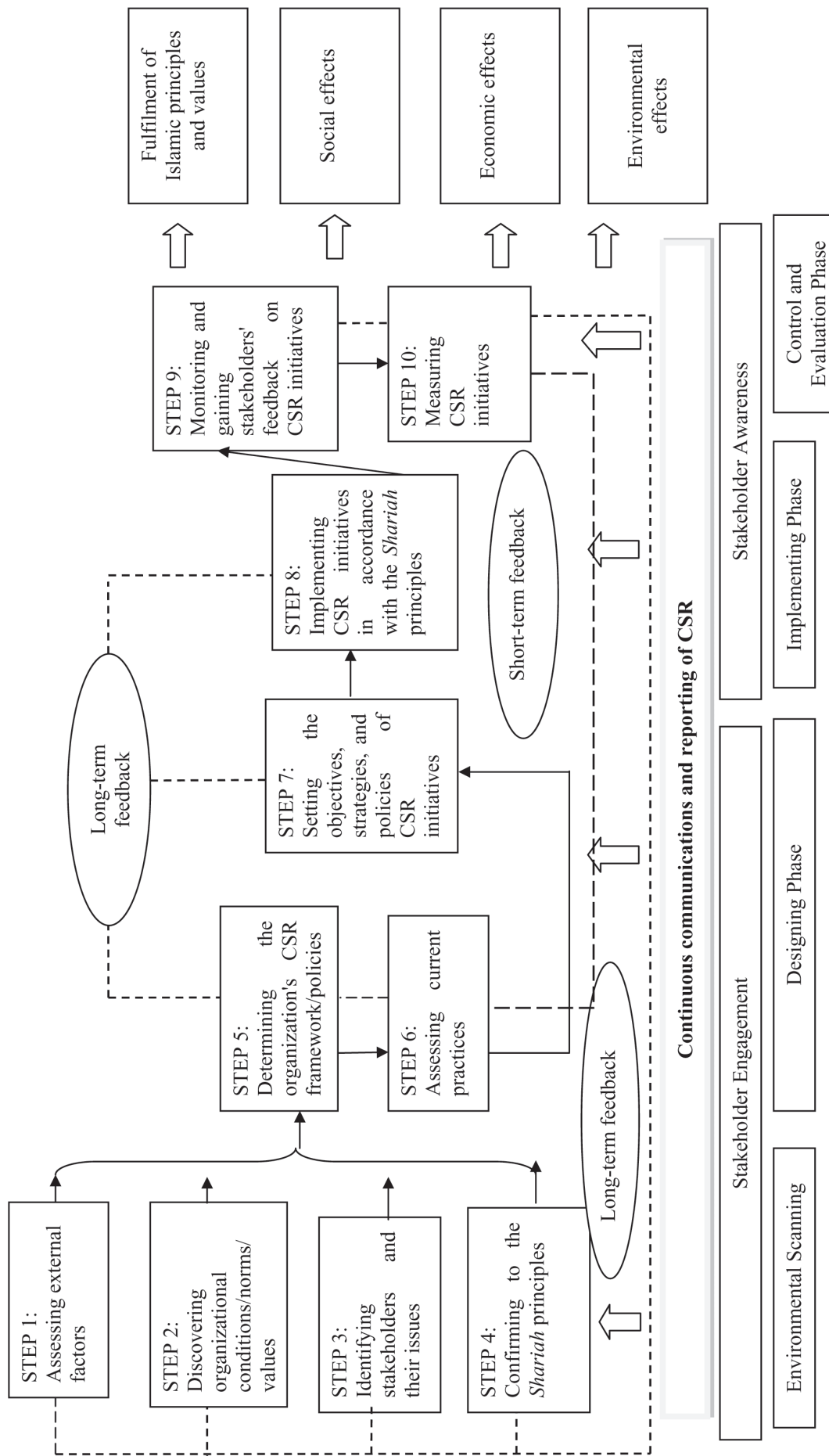


FIGURE 1. Proposed managerial guideline on CSR management process from an Islamic perspective

employees to conduct the activities, and the recipients of the CSR initiatives. At Bank Islam, the CSR culture resonates from the highest to lowest levels, and most staff members are willing to be involved in the CSR initiatives (Respondent 1, Respondent 8, Respondent 9, Respondent 12, Respondent 13, Respondent 19 and Respondent 23). The employees will be involved in and support the CSR initiatives inherently if they understand and are aware about the concept of CSR (Maignan, Ferrell & Ferrell 2005; Maon, Lindgreen & Swaen 2009).

Evaluating CSR Initiatives To improve the effectiveness of CSR initiatives, a good evaluation system should be established to gain a better understanding of the current CSR issues and identify any new issues. One way to evaluate the initiatives is getting the stakeholders' feedback (comments and suggestions). For instance, the feedback from the recipients of CSR initiatives is beneficial to measure the effectiveness of the program. For instance, Respondent 10, Respondent 11 and Respondent 14 suggested improvements in CSR planning and implementing, such as conducting a long-term CSR program and having more CSR programs which involve stakeholders as participants. Furthermore, the organization should encourage the employees to give feedback or report any discrepancy in the CSR programs by providing a mechanism for feedback and "whistle-blowing" (Beekun 1997). Overall, all these CSR initiatives need to be communicated and reported to the stakeholders to enhance their awareness. The next section discusses how the bank communicates and reports its CSR initiatives.

CSR Communication and Reporting In order to increase the awareness on CSR and the effectiveness of CSR programs, continuous communication and reporting of such initiatives should be considered as an important priority. This study documents that the CSR disclosure and reporting of Bank Islam show a positive improvement as compared to previous years. It gives assurance to all stakeholders that the bank is conducting its business ethically. In 2011, the bank was awarded "Gold" for "Best Annual Report in Bahasa Malaysia" by the National Annual Corporate Report Awards (Bank Islam Annual Report 2012). Other than the annual report, the bank uses various CSR communication channels, such as the corporate website, corporate email, internal portal and newspapers to update the stakeholders on the CSR activities. However, the bank should determine carefully the most effective communication channels to communicate the CSR activities to cater to the various expectations and information needs of different groups of stakeholders (Du et al. 2010).

From the Islamic perspective, the objectives of communicating and reporting are to show the *Shariah* principles are complied with and to demonstrate responsibility, accountability and transparency and to maintain a good relationship with Allah (SWT), other human beings and the environment as well as to promote its corporate ethical identity (Haniffa & Hudaib 2007).

The concepts of *Tawhid* and *Shariah* require Islamic business entities to be transparent and give full disclosure on the business operations (e.g., Quran 2: 42; 4: 33; 87: 7). By sharing this practice, it may inculcate a sharing and caring culture in other companies and encourage them to be involved actively in activities to improve the society. Additionally, the bank should disclose information on the forms of social accountability (through CSR activities) and full disclosure (positive and negative impacts of the activities on the recipients). These two aspects can assist Muslim users to evaluate the business activities and performance for decision-making (Muwazir et al. 2006; Othman & Thani 2010).

In this sense, the Corporate Communications Department should coordinate all information that is released to the public and manage all the CSR communication channels such as the annual reports, press releases on such activities, the corporate website (dedicated section on the CSR) and other alternative channels, such as TV commercials, newspapers and billboard advertising to improve the stakeholders' awareness on the activities. A few respondents claimed that communicating the CSR initiatives in the media is among the most effective communication tools to convey the message to the public. Katamba et al. (2012) suggest that the press releases or media coverage can improve stakeholders' awareness about a company's CSR activities. The bank also refers to the Silver Book guidelines for CSR reporting and has established a Reporting Unit to produce an informative and attractive annual report.

CONCLUSION

For Bank Islam, CSR is considered as part of its business commitment to be a responsible banker. The CSR culture and policy have been well-blended with the bank's day-to-day business operations. Since this study discusses the concept of CSR from the *Tawhid* and *Shariah* paradigms, it thus enhances the body of knowledge on CSR from the Islamic perspective to reflect Islamic teachings, values and principles. From this point of view, CSR is considered to be important to the Islamic business entities because it is governed the relationship between man and Allah (SWT), man and other human beings and man and the environment. Through this concept, the ultimate objective of conducting CSR is to achieve *barakah* and *al-falah* in this life and the Hereafter for the benefit of society.

In order to maximize the benefits of CSR engagement to the various stakeholders, these initiatives need to be properly managed. The findings of this study indicate that the process of CSR initiatives at the bank has become more structured and well-planned. Therefore, this study proposes a managerial guideline based on the experience of the bank in conducting the programs as shown in Figure 1. This guideline offers a new perspective to the

CSR literature and it is applicable to companies that want to conduct CSR as part of the commitment to be good corporate citizens.

One limitation of this study is that the proposed managerial guideline has not been applied in any other company to assess its applicability. Thus, it is highly recommended for future research to use this guideline to assess companies' CSR management processes in their contextual setting. In addition, it would be worthwhile to conduct interviews with CSR players in other companies to get their views in order to enhance the applicability of the guideline.

Another limitation of this study is related to the number of cases undertaken. A single case study may not be sufficient to get the whole picture on CSR engagement from the Islamic perspective. Thus, in future research, the number of cases needs to be increased to gain more insight into such activities. For instance, comparative case studies may also be undertaken: (i) cross-company comparative studies within Malaysia (other Islamic banks and conventional banks that offer Islamic banking and finance services as well companies in different industries); and (ii) cross-country comparative studies (other Islamic banks in Muslim countries and other developing countries). These comparative case studies would provide more empirical data concerning the management of CSR activities and the factors, benefits and challenges that may influence these activities in different contextual settings.

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