

Corporate Social Responsibility of Islamic Banks: A Literature Review and Direction for Future Research

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ABSTRACT

The value of social responsibility, either individually or collectively, has been recognised throughout history. Major organisations throughout the world now realise that corporate social responsibility (CSR) is an important part of a company's operations. It is not only because of its positive impact on business economic performance but also on society which in turn impacts positively on employees and the society at large. Islamic banks are not excluded from this responsibility. Therefore, the purpose of this study is to review the literature of CSR from an Islamic perspective and CSR of Islamic banks. Through literature review, it was found that there is no detailed study which determines the ruling of CSR from an Islamic perspective. The review also revealed the concern over CSR is significant to Islamic banks, and thus a standard and comprehensive CSR framework should be developed for Islamic banks best practices.

KEYWORDS: Corporate Social Responsibility, Islamic Banks, Islamic Perspective.

INTRODUCTION

One does not need to look far to find the term "corporate social responsibility" in the literature today since it is not a new term. CSR issues are frequently covered throughout both the business and popular media. Additionally, in a search in the largely and freely web-based scholarly search engine, Google Scholar, for the term "corporate social responsibility" about 1,770,000 results were identified [1]. However, when it comes to "corporate social responsibility of Islamic banks", there were only 40,500 results appeared in the same search engine [2]. Directly, it shows that CSR of Islamic banks is still in the infant stage. Indirectly, there is a lot more to explore on CSR of Islamic banks. Hence, this study reviews the literature on CSR of Islamic banks to identify what more could be contributed theoretically and practically. Nevertheless, since Islamic banks are founded based on Islamic principles, the review on CSR from an Islamic perspective is unavoidable.

CORPORATE SOCIAL RESPONSIBILITY FROM AN ISLAMIC PERSPECTIVE

Studies on CSR are quite new in Islam although its notion has been suggested to be consistent with an Islamic view of society. It is not a surprising statement because the term "corporate social responsibility" has been developed by Western researchers based on Western values. Thus, the discussions on CSR from an Islamic perspective are not as much as those from conventional perspective.

The development of understanding CSR in Islamic literature began with its discussion directly or indirectly in Islamic business ethics, since CSR is very much related to business ethical conduct. This can be seen in [3]. The understanding on CSR notion in Islam can be obtained indirectly from the four ethical axioms of Islamic economics theory i.e. unity, equilibrium, free will, and responsibility. Another important work on the subject is done by [4]. Other than adding one more axiom on top of four axioms which is benevolence, it also has discussed social responsibility of organizations from an Islamic perspective. It can be considered as the first effort to discuss CSR directly from Islamic philosophy. The effort continued by [5] which focusing more on business responsibilities in marketing and environment ethically in Islam.

However, beginning from 2004, there is a few of researches that have been conducted which discuss CSR from an Islamic perspective. Among them are by [6, 7, 8, 9, 10, 11, 12, 13, 14]. Most of these studies focussing more on CSR concept from an Islamic perspective with limited discussion on the status of CSR programmes or activities

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specifically, except for the research done by [11]. In this regard, it restricted the study to the employment only which is a small part of CSR dimensions.

There are also comparative studies that have been done by a few of authors between CSR from Islamic point of view and other perspectives. A study by [15, 16] are a few of examples of the comparative studies. Both studies found that CSR from an Islamic perspective is more holistic compared to that of conventional perspective and also the “Ten Principles” under UN Global Compact.

CORPORATE SOCIAL RESPONSIBILITY OF ISLAMIC BANKS

It is important to recognize that all types of business apply CSR initiatives to further their relationships with their customers, their employees, and their community at large [17]. Islamic banks are not excluded in this case as they are also business entities. Therefore, a significant number of studies on CSR of Islamic banks can be discovered in the past literature.

This can be seen in [18] work that other than in [10] as mentioned before, such as by [19, 20]. Other researches done on this subject are done by [21, 22, 23, 24, 25]. It is evident from these studies that CSR is not alien to Islamic banking and should be seen as a benefit rather than a cost, which can be used as a strategic tool to enhance the reputation of Islamic banks, and simultaneously prove to be profitable for the institutions in the long-run.

As far as the CSR framework for Islamic banks is concerned, there are few efforts done by researchers. In this regard, in [26] attempts to produce a CSR framework for Islamic finance by using the pyramid of *maslahah*. Whereas, in [27] develops a CSR framework based on two layers of CSR involvement in Islamic banks i.e. commitment towards Allah (s.w.t.) and commitment towards other stakeholders. These two frameworks can be used as a guideline in managing ethical conflicts.

Besides all the studies above, there are also researches focussing on corporate social responsibility disclosure (CSRSD) of Islamic banks which is part of CSR initiatives. Among them are by [28, 29, 30, 31, 32, 33]. The themes of CSR of these studies were derived either from Accounting, Auditing and Governance Standards for Islamic Financial Institutions (AAOIFI Standards), Bursa Malaysia, Malaysian Accounting Standard Board (MASB), Islamic Financial Services Board (IFSB), Bank Negara Malaysia (BNM), or prior studies, or a combination of few of the above sources. The variety of sources used in determining CSR themes imply that there is no standard and comprehensive CSR guideline especially for Islamic banks which needs to be worked on.

DISCUSSION

Based on the review that has been done on the previous studies, it is found that although all the studies mentioned earlier discussed CSR either directly or indirectly from an Islamic perspective. There is no detailed study that really determines the status of CSR concept and its applications from an Islamic perspective. Therefore, a study that uses Islamic jurisprudence approach as a tool to determine CSR application rulings in order to produce a balanced and comprehensive Islamic CSR framework is significant to really ensure the status of CSR in Islam.

The review of literature on CSR of Islamic banks further revealed that although CSR is significant to Islamic banks, there is no standard and comprehensive CSR framework has been developed for Islamic banks best practices. Although there are many present practices in Islamic banks that are in line with notions of CSR in Islam, these seem to be merely ad-hoc and driven more by Shari'ah legal requirements rather than by a higher-order understanding based on fundamental religious texts concerning social responsibility [8]. In addition, there is no legal requirement and clear guidance on the CSR information imposed on Islamic banks [23]. Even reports of Islamic banks also show that selected Islamic banks are too customer centric and efficiency driven, but, that efficiency is targeted at the cost of sacrificing Shari'ah norms [27]. Undeniably, despite the fact that Islamic banks are governed in accordance with Shariah law, many of the banks are still using the conventional frameworks of CSR. It is based on western cultures, values, beliefs and perspectives [34] which sometimes are not really proper for Islamic banks application.

In addition, it is widely cited that Islamic Financial Institutions (IFIs) which are also including Islamic banks is generally execute a part of their social responsibilities only. It widely accused to have generally ensured their operational status by avoiding negative actions or impermissible activities, but minimally and variedly performing recommended activities [21]. It seems that most of Islamic banks focusing more on religious and philanthropic activities and almost ignoring other CSR practices such as concern with social exclusion and human rights, environmental concerns and human resource development which bring to the imbalance of CSR applications.

It is believed that all the above CSR imbalance symptoms are experienced by Islamic banks because of non-existence of standard and comprehensive CSR framework. Consequently, it opens to various interpretations which sometimes are not accurate. Probably, that is why there are so many “versions” of CSR practices in Islamic banks

especially in Malaysia since there is no standard framework in CSR practices. Although there is CSR framework for Malaysian public listed companies provided by Bursa Malaysia [35], it is very general and not an Islamically Shari'ah driven even depends on how the individual company interprets it. As such, it is recommended that regulatory authorities standardize the concepts of social responsibility for IFIs especially Islamic banks based on Shari'ah principles.

CONCLUSION

The studies on CSR have grown tremendously at present by looking at more and more companies are engaged in serious efforts to define and incorporate CSR into all aspects of their business due to its positive impact on business economic performance. The concern over CSR is also significant to Islamic banks. However, before any CSR programmes or policies being incorporated into Islamic banks corporate strategy, planning or marketing, it is important to know the status of CSR from an Islamic perspective first. It is believed that lack of understanding and clear stand on the CSR status from an Islamic perspective has brought to various interpretations. Therefore, a standard and comprehensive CSR framework which is based on Shari'ah principles is crucial for the development of Islamic banks and the wellbeing of their stakeholders.

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