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## The Disclosure of Community dimension in Corporate Social Responsibility (CSR), Malaysia Islamic Banking: A Conceptual Paper

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### Abstract

Islamic Banking operating based on Shariah therefore should serve a guidance for Islamic organisations when exercising their business and social responsibilities simultaneously. The focus of this study is to study trend that the Malaysian company show in disclosing their Corporate Social Responsibility dimension. This paper found that, community dimension is highly and mostly disclosed in the company Corporate Social Responsibility stand-alone report or in part of annual report. In further, investigating the reason of community dimension score higher compared to the others CSR dimensions in Malaysia Islamic Banks sector. This study had referred a past literature that had been conducted in Malaysia and other countries regarding on this topic. Therefore, it explores the relationship between CSR specifically related to the community dimension and the disclosure of it in Islamic Bank sustainability or annual report.

**Keywords:** Corporate Social Responsibility, Community, Islamic Bank

### Introduction

According to Bedi (2010) the notion of CSR originated in 1950's when Bowen, H. wrote a book named 'The Social Responsibilities of Businessman'. Since then, CSR The CSR concept have penetrated the academic literature with different name such as Corporate Governance, Corporate Social Performance, Corporate Social Responsive and Corporate Citizenship. This new concept has brought a new paradigm to the industry, academia, and society. According to Jamali (2008) CSR can be defined as the circumstances whereby social, environmental, and economic concerns are being integrated into the corporation's daily business strategy and operation, in manner of effectiveness and efficiency because to establish better practices within corporation, cultivate wealth and produce better society. Banerjee (2008) describe CSR as organization tactical plan which heightens business activities by developing, retain or ease

away bad impact of the company toward society and environment. CSR is also being described as a set of process, procedure and actions of a company which assist in the conversion of better business as well lessening bad impact of the company on community and environment (Porter & Kramer, 2008). Conferring to Adefolake (2012) CSR encountered with bad behavior of the business. This involve encountering social issues indirectly that give an impact on business bottom line on matters like environmental, labor, and human right abuses that are happening either internal or external of the organization. Furthermore, based on Richard and Okoye (2013) CSR is a persistence commitment by corporate entity to conduct business ethically. Thus, will add up to the economic growth while upgrading the quality of life of the employee and their families as well as of the local community and society at large.

Robust level of growth has been demonstrated by Islamic finance over the years and which therefore also has become a vital component of the international financial system. Islamic banking should not merely focus on the elimination riba' as its objective but also need to be concerned about socio-economic justice, which is considered essential and integral part of Islamic moral economy. Since this study considers that economic development is essential for the developing countries, Islamic Banking as an Islamic financing system should be in the service of economic development and human empowerment in these societies

Corporate Social Responsibility (CSR) in Islamic perspectives is not alien. Rendering to the study which was conducted by Dasuki and Abdullah (2007) conclude that corporations which claims to follow Sharia'ah based principles should be the business which promotes the CSR practices. Invoking that Shari'ah and reflecting masalahah imply that corporation such as bank must not be only solely oriented towards profits, but also seek a way to promote social welfare and protect the society. Their finding is based on the Islamic Legal maxim which stated the principle of preventing harm which is embedded in CSR framework. Based on this principle, as the vicegerent, or Khalifah, manager who desires on profit maximization allowed to do so if his business does not bring any adverse effect towards environment, society, and stakeholders.

### **Literature Review**

Gray (1995) argues that, for corporation to discharge their political economy, legitimacy, corporate social responsibility, and stakeholder theories' is by providing CSR information to the society as part of dialogue between society and corporation itself. Even if the organization is complying with society's expectations, organizational legitimacy can be threatened if it has failed to make disclosures that show it is complying with societal expectations (Newson and Deegan, 2002). Hence, managers need to demonstrate that they are complying with the 'social contract' by disclosing information in line with society's expectations.

In general, CSR practices in Malaysia has become increasingly important, hence building the public image becomes a primary motivating factor for companies to involve with CSR (Buniamin et al., 2008). Additionally, globalization is a challenge and opportunity for Malaysian companies to strengthen themselves on global scale in term of investment and international trade. Futhermore, in the 2013 budget speech, the former Prime Minister, Dato Seri Mohamad Najib Tun Razak has stressed on the need for private sectors, corporate bodies and GLCs to play a bigger role in the development and well-being of people through CSR. In addition, he said that, from the national outlook a good reputation for CSR will help companies in Malaysia to compete in the world markets by resolving the potential concerns end users may had in established markets. Bursa Malaysia had launched, Business Sustainability Programme in November 2010 in order to urge Malaysian PLCs to integrate

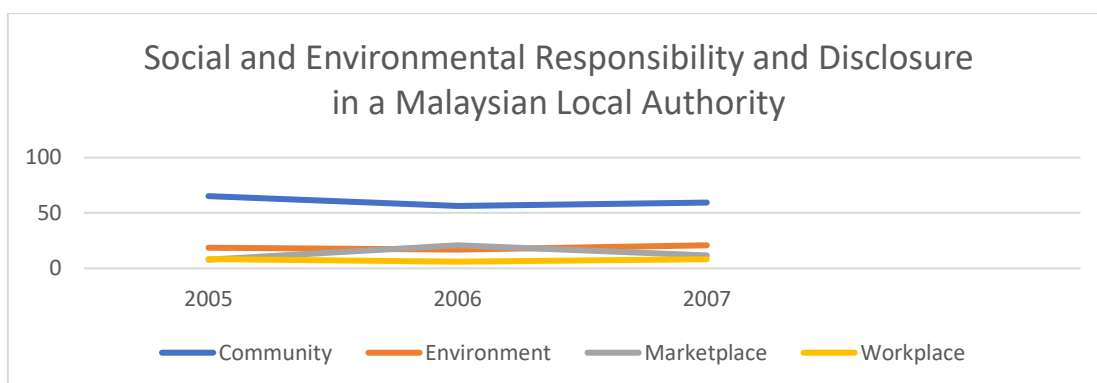
sustainability into their core business strategies. The program contains the guide for company director on the publication of a sustainability and the introduction on Bursa Malaysia website of a Sustainability Knowledge Portal.

Global Reporting Initiative (GRI) established in 1997 as an independent international organization introduce a wide-ranging guideline on sustainability reporting. The disclosure performance measurement on the economic, environmental, and social area is consistent, comparable, and universal for all stakeholders and users. The aim of the reporting standard is to assist the business, governments, and other related entities to communicate with their balanced, reasonable, and transparent sustainability report which will benefit to everyone. In Malaysia context, the CSR framework launched by Bursa Malaysia in 2006 is merely a guideline for companies to implement and practices CSR. Furthermore, to encourage more CSR practices, the government introduces the 'Silver Book' which provide a framework for government-linked companies (GLCs) to contribute responsibly to society. Although, it is not compulsory for the companies to comply with the four dimensions outlined. Therefore, constraints exist for the companies in classifying and characterizing the themes or dimensions relating to CSR practices. The dimensions discuss in the book consist of workplace, marketplace, environment, and community dimensions.

Based on the study by Porter and Kramer (2006) community from the business perspectives is considered as the place of conducting and carrying out business operation. It is also known as key stakeholders that is the community within business operation. According to Rotolo and Wilson (2006) communities' activities are where company promote their economic development, such as efforts that company made to improve local infrastructure, social welfare, security, community education and healthcare. The engagement in community development which may comprise of offering and giving sponsorship or donations. Community activities can be incorporating direct or indirect activities. However, community schemes which involve financing and other care implement by local agencies associated to interface between corporation and community or the public impacted by a project, product, or investment on a local or global level. Business lives within the society which therefore, interdependent relationship should be developed as business influence by the people around it in various means and on the other side the community also depend on them as well.

### **Discussion**

A previous study conducted by Ibrahim et al (2012) from the year 2005 until 2007 also show the same trend in reporting the dimension of CSR. The study shows that community are the most disclose dimension in the CSR report. Rotolo and Wilson (2006) defined community is the effort that company made that engage with community development. Raihan et al (2015) defined community as community program expenses to total expense. Community activities refers to those initiatives that a person or organization execute for the benefit of the society or community. It is a voluntarily activities perform to help individuals living in the community. It is giving back the community job (Wenger et al., 2002). The trend then illustrated in the graph below.



Source: Institute Perakaunan Negara (2012)

Based on the analysis on the individual CSR dimensions, the community dimension is most adequately disclosed in annual report and stand-alone sustainability report. This finding also coherent with the finding by Salleh (2009) which also reveals that Malaysia PLCs discloses more on community and environment CSR information the workplace and marketplace. This is also supported by Ali and Atan (2013) indicates that CSR practices among local companies are mainly on corporate philanthropy. Essentially, the commitment towards community and society is not limited only for philanthropic activities but it is beyond corporate philanthropy which among others, participation in management of public affairs and solving the social problem. It is expected that Malaysian companies tend to disclose more information associated with community dimensions. As possible reason is because the companies believed that engaging actively within communities, it helps to portray good image of the selected companies and penetrate their business locally and internationally.

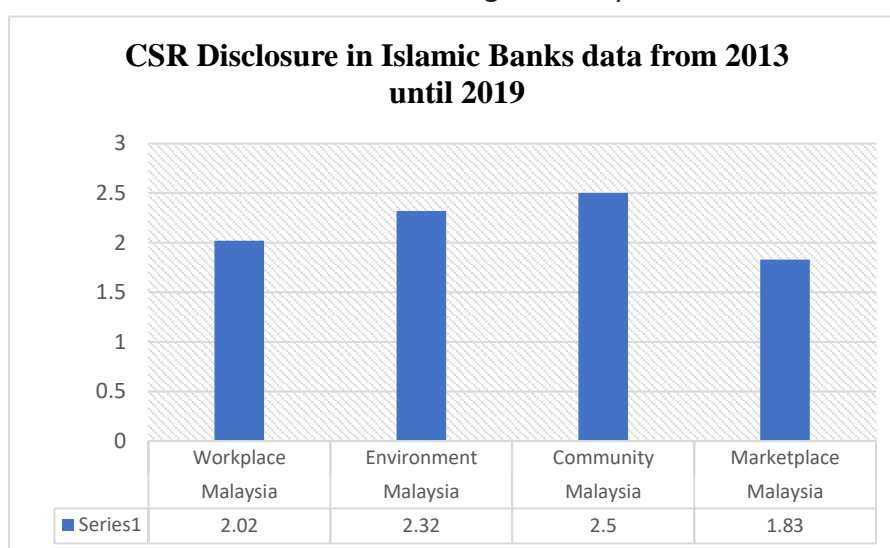
This is supported by the study conducted by Irshad et al (2018), which examines the customers satisfaction and loyalty is influenced by the CSR factors in the presence of corporate Image as a moderator in economy of Pakistan. Study based on qualitative research method and questionnaire was spread in 370 target peoples, and 236 were received back from those 219 were found reliable for testing. Six Hypotheses were generated, and data was run in SPSS and all of them were supported. Satisfaction and loyalty and moderating effect of corporate high image results more strong relationship between CSR and customer satisfaction and customer loyalty. There should be need of market implication of this and research in broader area with the maximizing of resources.

This finding also consistent with the discovery by Tilakasiri (2012) which shows that community disclosure on 50 companies listed on Columbo Stock Exchange in Sri Lanka (2004-2009) is positively and significantly associated with ROE and ROA. Therefore, based on performing good CSR towards community could lead to a better financial performance, three sub-hypotheses of the study were developed. Study carried in early 2005 by Leao-Aguiar, Ferreira and Marinho also found that and recognized that the perception towards corporate play an integral part of a larger community. In addition, another study Radicevic et al (2020) revealed that respondents with higher education level tend to recognize CSR through advertising spots and humanitarian actions of companies more often than those with lower education level. Which therefore conclude a reason for a company tend to close regarding to the community dimension more.

Bediako (2017) analysed the impact of Corporate Social Responsibility (CSR) on Customer loyalty, specifically among Finnish tourists with StanBed Tours key as the case study. The objective of the study was to determine the level of customer awareness of CSR activities that

ought to be carried out by a socially responsible company and establish the impact of CSR on the loyalty of StanBed Tours customers. The literature review focused on the history of CSR from the genesis to modern time, the types of CSR, benefits of integrating CSR into an organization, customer loyalty, antecedents of customer loyalty and brand equity. The findings from the web-survey indicated that customers were very much aware of the CSR activities that responsible companies should engage in. In addition, the finding's indicated CSR influences their loyalty to StanBed Tours ky and customers were willing to purchase trips from the company because of their engagement in CSR.

This study examines further regarding the research conducted by Razali (2021) which discussed regarding the disclosure of Corporate Social Responsibility (CSR), based on the Maqasid Al-Shariah in Malaysia and Mena Region. The result shows that community dimension is the highly disclosed dimension. Deeper explanation regarding on this matter is discussed in this study. Hence this paper assessed the past and current literature which explain the reason behind this situation focusing on Malaysia cases.



Source: The Disclosure of Corporate Social Responsibility (CSR), Based on the Maqasid Al-Shariah in Malaysia and Mena Region (2021)

Islamic Banks from both regions play an active role in serving the community. As an Islamic organization, the perception of donation is also relevant to Islamic values such as sadaqah. These values conform with the principle of Maqasid Al-Shariah. The donations are not only representing the organization social responsibility but complies with the religion belief. Thus, it is imperative for Islamic banks to build their corporate image and reputation upholding their goodwill. Community involvement show a highest disclosure among other dimension in this study findings. This is in accordance with the concept of Islamic accountability where Islamic organizations, such as Islamic banks, are expected to satisfy social responsibility along with their economic responsibility have demonstrated ongoing efforts toward good citizenship. This is evident from greater disclosure of their social impacts and higher levels of accountability. As vicegerent of God, these banks have played their role by engaging in social responsibility activities. The increasing social responsibility reporting practices among the Islamic banks is in line with the objective of Shariah and establishment of Islamic organizations. The study findings can be explained through the lens of legitimacy theory which supports Islamic banks' engagements in social responsibility practices and disclosure to seek and maintain their license for operation in the community.

Generally, CSR is often argued and expected to be beyond philanthropy. Nevertheless, the survey conducted by Prabathan and Rahim (2005) indicate that CSR practices among local companies mainly concentrate on corporate philanthropy. They revealed that between the period of July 2003 and December 2004 approximately RM82.1 million was generously distributed to several charitable associations, events, orphanages, and the poor. In addition, prior studies have identified a number of factors that have the potential to influence CSR practices in Malaysia. The studies reveal that the factors consist commonly the trends of CSR activities being carried out by companies are alike to their business conduct (Zulkifli & Amran, 2006). Other factors, as according to Saleh (2009); Haniffa and Coke (2005) that CSR practice in Malaysia is influenced by seasonal activities such as Aidil Fitri, Deepavali, Chinese New Year's celebration, ethnicity and religious. Other than that, the pressure from the government and influence of foreign business partners also factors contributing to CSR practices in Malaysia.

Furthermore, the principle of full disclosure is closely related to the concept of CSR in Islam (Lewis, 2001). Full disclosure does not mean that Islamic banks need to disclose everything, which of course is impractical. It means disclosing any information deemed relevant and that should be rightfully given to the stakeholders to facilitate their economic and religious decision-making. The implication of this position is that Islamic banks should disclose all information necessary to advise the stakeholders about their operations, even if such information would work against the institution itself (Muwazir et al., 2006). It is because, as representative organizations, Islamic financial institutions are responsible to disclose their compliance with the principles and laws of Islam to stakeholders (Farook, 2007).

### **Conclusion**

CSR is an obligation for every organization in order to show their accountability to society as a whole. Although CSR is part of voluntary disclosure, in Islam, the implementation of CSR is an obligation for every Muslims who are the khalifah of the ummah. This is the best way to show the accountability to society and Allah as well. For Islamic Banking, they need seriously to highlight or disclose their CSR activities by considering the objective of Shariah (Maqasid Al-Shariah). By providing the activities which achieve Maqasid Al-Shariah that give benefits and meaningful to the ummah, the image as an Islamic Banking will be improved. What can be conclude, based on the finding of this study the reason community dimension is chosen as the highly disclosed dimension in CSR is because of the reputation of the company in portraying to the community as the tagline giving back to the community, customer awareness regarding to the humanity program conducted by the company and lastly because of the religious aspect value. CSR may help to improve financial performance, enhance brand image, and increase the ability to attract and retain the best workforce which ultimately contributes to the market value of the company. These could easily translate to better client and customer satisfaction, greater customer loyalty and ultimately lower cost of capital because of better risk management. Finally, from a national outlook, a good reputation for CSR will help Malaysian companies compete in world markets by resolving the potential concerns end users may have in established markets. Based on this it is recommend for the future researcher to also expand the study by investigating the trends of the disclosure for the other CSR dimension. It is also recommended for the future research to do comparative analysis between sector and between country in order to further enhance the study.

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