



ISSN:1991-8178

Australian Journal of Basic and Applied Sciences

Journal home page: www.ajbasweb.com

A Study of CSR Activities among Malaysian Banks: Comparison between Islamic Banks and Conventional Banks

Mohamad Yazis Ali Basah, Safwan Hamdy, Mazlynda Md Yusuf, Khairil Faizal Khairi and Hisham Sabri

Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800 Bandar Baru Nilai, Negeri Sembilan, Malaysia

ARTICLE INFO

Article history:

Received 10 October 2015

Accepted 30 November 2015

Available online 31 December 2015

Keywords:

Corporate Social Responsibility (CSR)

Islamic Banks

ABSTRACT

Corporate social responsibility (CSR) has had a long and varied history since its beginnings in the early 1930s (Berle and Means, 1932; Carroll, 1999). It has become part of the corporate agenda for business development and survival, and is considered important in explaining business relationships and business management in order to achieve business goals. CSR acts by providing a framework for strategic management and business relationship among various stakeholders. In general, CSR can be divided into four main dimensions: the environmental, the human resource, the philanthropic, and human rights. The study tries to investigate on how the Malaysian Banking Institutions react towards these four dimensions of CSR. As Malaysian banking system is unique by implementing dual banking system (Conventional bank as well as Islamic Bank. The study tries to explore on how Islamic bank differ with conventional counterpart. For that purpose, this paper employed content analysis of five years periods of annual report of Malaysian Banking Institutions. It comprises of total 39 banks which include 17 conventional banks and 12 Islamic Banks. The study found, Conventional banks have better implementation of CSR dimensions compare to Islamic Banks. The finding is interesting to be explored further on why least performance of Islamic Bank compare to Conventional Bank.

© 2015 AENSI Publisher All rights reserved.

To Cite This Article: Mohamad Yazis Ali Basah, Safwan Hamdy, Mazlynda Md Yusuf, Khairil Faizal Khairi and Hisham Sabri., A Study of CSR Activities among Malaysian Banks: Comparison between Islamic Banks and Conventional Banks. *Aust. J. Basic & Appl. Sci.*, 9(37): 15-21, 2015

INTRODUCTION

Corporate social responsibility (CSR) has had a long and varied history since its beginnings in the early 1930s (Berle and Means, 1932; Carroll, 1999). It has become part of the corporate agenda for business development and survival, and is considered important in explaining business relationships and business management in order to achieve business goals. CSR acts by providing a framework for strategic management and business relationship among various stakeholders. In general, CSR can be divided into four main dimensions: the environmental, the human resource, the philanthropic, and human rights. The study tries to investigate on how the Malaysian Banking Institutions react towards these four dimensions of CSR. As Malaysian banking system is unique by implementing dual banking system (Conventional bank as well as Islamic Bank. The study tries to explore on how Islamic bank differ with conventional counterpart. For that purpose, this paper employed content analysis of five years periods of annual report of Malaysian Banking Institutions. It

comprises of total 39 banks which include 17 conventional banks and 12 Islamic Banks. The study found, Conventional banks have better implementation of CSR dimensions compare to Islamic Banks. The finding is interesting to be explored further on why least performance of Islamic Bank compare to Conventional Bank. The paper is presented as follows, first is an introduction as overview of the study, Second, part discuss on literature review that discuss on the concept of CSR and its development. The third part discuss on the methodology used in the study follow by result and analysis. The last part is a conclusion that conclude the whole finding of the study.

Corporate social responsibility (CSR) has had a long and varied history since its beginnings in the early 1930s (Berle and Means, 1932; Carroll, 1999). It has become part of the corporate agenda for business development and survival, and is considered important in explaining business relationships and business management in order to achieve business goals. CSR acts by providing a framework for strategic management and business relationship among various stakeholders. In general, CSR can be

Corresponding Author: Mohamad Yazis Ali Basah, Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800 Bandar Baru Nilai, Negeri Sembilan, Malaysia
E-mail: yazis@usim.edu.my

divided into four main dimensions: the environmental, the human resource, the philanthropic, and human rights. The study tries to investigate on how the Malaysian Banking Institutions react towards these four dimensions of CSR. For that purpose, this paper employed content analysis of five years periods of annual report of Malaysian Banking Institutions. Its comprises of total 43 banks which include 8 local commercial banks, 19 foreign commercial banks, 10 local Islamic banks and 6 foreign Islamic banks. The study found that, human resource dimension are the most popular CSR activities in Malaysian banking institutions. The environment dimension is among the least CSR activities followed with human resource issues. From the result, we identify on how CSR issues being implemented in Malaysian banking sector. It is very useful for the industry for better improvement on CSR implementation. The paper is presented as follows, first is an introduction as overview of the study, Second, part discuss on literature review that discuss on the concept of CSR and its development. The third part discuss on the methodology used in the study follow by result and analysis. The last part is a conclusion that conclude the whole finding of the study.

Literature Review:

The Concept of Corporate Social Responsibility (CSR):

The corporate social responsibility (CSR) concept has had a long and varied history. Although references to a concern for social responsibility appeared during the 1930s and 1940s, the modern era of social responsibility began in the 1950s (Carroll, 1999). Bowen (1953, cited in Carroll, 1999) referred to CSR as the obligations of businessmen to pursue those decisions, those policies, those lines of action which are desirable in terms of societal objectives and values. In the 1960s, in an overview of CSR, Frederick (1960) defined CSR as an action taken by businessmen to oversee the operations of an economic system so that it fulfils the expectations of the public. In other words, production and distribution must be conducted in such a way that will enhance total socio-economic welfare. Frederick (1960) drew attention to five major thoughts about business responsibility at that time, each attempting to tackle the problems of power in a complex society and highlighting the importance of businesses' responsibility to society.

Davis (1960) divided CSR into socio-economic obligation and socio-human obligation. As regards socio-economic obligation, the businessmen's role is to manage economic units in the society, with a broad obligation to the community with regard to economic development and public welfare. As regards socio-human obligation, businessmen are obliged to nurture and develop human values, such as morale, cooperation, and motivation. These two

obligations should underlie businessmen's decisions and actions should be taken for reasons at least partially beyond the firm's direct economic or technical interests.

In the 1970s and 1980s, the debate on obligation extended to groups other than shareholders. Jones (1980) extended CSR to include the notion that corporations have an obligation to constituent groups in society other than shareholders and beyond those prescribed by law or union contract. Such obligation is voluntary and, second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups, such as customers, employees, suppliers, and neighbouring communities. According to Carroll (1999), in the 1980s and 1990s research into CSR increased. Three conceptual categories were employed to discuss business performance: business ethic, CSR, and corporate social responsiveness. These categories influenced perceptions of the role of business (Epstein, 1987).

Carroll (1991) argued that one of the factors that contributed to the ambiguity that frequently shrouded discussions about social responsibility was the lack of consensus on what the concept meant. The concept of CSR expounded by Carroll (1979; 1991 and 1994) introduced four layers of CSR or four kinds of social responsibility: economic, legal, ethical and philanthropic. According to Carroll (1991), the four components of CSR begin with the basic notion that economic performance undergirds all else. At the same time, business is expected to obey the law because the law is society's main reference of acceptable and unacceptable behaviour. It is also obliged to do what is right, just, fair, and to avoid or to minimise harm to stakeholders. Business is also expected to be a good corporate citizen. This can be achieved through philanthropic responsibility, where business is expected to contribute financial and human resources to the community and to improve the quality of life. Since then, Carroll's pyramid has received substantial attention among scholars and has been used as a main concept in CSR studies.

O'Neill *et al.* (1989), Ibrahim and Angelidis (1995), and Ibrahim *et al.* (2003) examined how board of directors (BODs) viewed CSR orientations. O'Neill *et al.*'s (1989) study revealed that BODs could successfully differentiate between the four CSR orientations as in the earlier study. Ibrahim and Angelidis (1995) and Ibrahim *et al.* (2003) expanded O'Neill *et al.*'s (1989) study by categorising BODs into two groups: (1) inside; and (2) outside. Their study results indicated that outside BODs expressed greater concern about philanthropic responsibility and less concern about economic responsibility. No significant difference between the two groups was observed with respect to legal and ethical responsibility.

Pinkston and Carroll (1994) expanded previous studies on CSR orientations to examine the influence of country of origin on attitude towards them. Their study sought to determine whether CSR orientations and their approximate weightings were similar for respondents employed by local and foreign organisations. Their findings indicated that the four CSR orientations were perceived differently by respondents. Germans and Swedes attached greater importance to legal responsibility than economic responsibility. The study result therefore demonstrated that there were significant differences in the perceived relative importance of CSR orientations based on the country of origin of respondents' employing organisations.

Edmondson and Carroll (1999) conducted a study on CSR orientations among the owners or CEOs of African American businesses. Their study results revealed that economic responsibility was perceived to be the most important, and ethical responsibility was more important than legal responsibility. Philanthropic responsibility was found to carry more weight for this study's sample than previous studies. Thus, the present study investigates the inter-relationship between multi-racial, multi-cultural society in the wider sense (difference racial groups), and multi religious society (difference religions) in a more specific sense as exists in Malaysia, and how this interrelationship is reflected in different perceptions amongst bank managers specifically and stakeholders more generally towards CSR.

Smith *et al.* (2001) examined how personal characteristics and organisational characteristics influenced attitude to CSR orientations. Personal characteristics included gender and racial group while organisational characteristics included respondents' role, such as BOD, employee or customer. The study results indicated that both personal characteristics and organisational characteristics influenced attitude to CSR orientations. Employees were most concerned about economic responsibility whereas customers were most concerned about ethical responsibility. The results also indicated that women black employees and customers were more concerned about whether an organisation fulfilled its philanthropic responsibility than males and whites.

Marz *et al.* (2003) carried out a study that evaluated the influence of organisational and personal characteristics on CSR orientations in Germany. Organisational characteristics comprised hierarchical level and professional activity. Personal characteristics comprised political system origin (former East Germany versus former West Germany) and gender. The results indicated that mid-level management exhibited a significantly lower social orientation than low-level managers. Female respondents expressed a higher social orientation than male respondents. However, no political

influence as an affecting factor in the context of CSR orientation was found.

As cultural diversity is one of the major factors influencing CSR orientation, several studies have compared evaluation of CSR orientation between countries. Maignan (2001) examined American, French and German consumers' evaluation of CSR orientation. The study's results suggested that American consumers highly valued economic responsibility, whereas French and German consumers were more concerned about legal responsibility and ethical responsibility.

Kusku and Zarkada-Fraser (2004) conducted a study which compared Turkish and Australian business organisations' CSR orientation, since Turkey and Australia differ in terms of culture and economics. The study results showed that Australian and Turkish business organisations' CSR practices differed significantly on a number of variables. For example, Australian business organisations were more likely to obey the law than Turkish business organisations.

In their study, Ibrahim and Parsa (2005) examined the differences between American and French managers' CSR orientations. Their study showed that American and French managers significantly differed with regard to CSR orientation. American managers expressed greater concern about the legal and ethical components of CSR than their French counterparts. French managers expressed greater concern about the economic and philanthropic components of CSR. Smith *et al.* (2007) investigated differences in CSR orientation between American and Japanese students. Their study finding supported the assertion that CSR orientation would vary across students of different cultures.

Peterson (2004) and Smith *et al.* (2001) investigated the relationship between CSR orientation and CSR commitment. Their study findings indicated that ethical responsibility was a stronger predictor of business commitment towards CSR than economic, legal or philanthropic responsibility. The result also revealed that philanthropic responsibility was more strongly associated with organisational commitment towards CSR than economic, legal or ethical responsibility. The study also found that legal responsibility was positively related to the willingness of businesses to observe legal requirements. The aforementioned studies were all conducted in developed countries. The following paragraphs will review studies carried out in developing countries.

Ramasamy and Yeung (2009) studied differences in the importance consumers in China attached to CSR orientation based on Carroll's (1979) pyramid. Their study found that Chinese consumers considered economic responsibility to be most important and philanthropic responsibility to be least important. Arli and Lasmono (2010) conducted

a similar study on Indonesian consumers. Their study results showed that economic responsibility was considered to be the most important responsibility followed by philanthropic responsibility, legal responsibility, and ethical responsibility.

Dusuki and Yusuf (2008) investigated the importance attached to CSR orientations in Malaysia. Their study results showed that Malaysians ranked the orientations in order of importance as follows: economic, ethical, legal, and philanthropic. The ranking differed slightly from the idealised model of Carroll (1979) suggesting that personal characteristics such as gender, racial group, educational level, work experience, and religious affiliation contributed to the difference. However, the research focused only upon MBA students in a public university in Malaysia. A different sample may have produced different results. Given the above review of studies in developed and developing countries, this study investigated differences in importance attached to CSR orientations in Malaysian banking sector

CSR in Islam:

Islam provides a complete code of behaviour for life since it embraces every aspect of life. CSR is therefore not isolated in the Islamic view and is one of the main concepts in Islamic teaching. Dusuki and Abdullah (2007b) stated that the concept of CSR is deeply inscribed in the *Shari'ah*. Therefore, any corporation such as an Islamic bank that claims to follow *Shari'ah* based principles should naturally practise CSR, as it enshrines Islam's true spirit.

Williams and Zinkin's (2010) study on the compatibility between the tenets of Islam and the United Nations' Global Compact found that the teachings of Islam not only appear to be in close conformity with the Ten Principles of the United Nations' Global Compact, but in many respects, go further than the minimum standards adopted by this framework. In their study, Williams and Zinkin (2010) found that Islamic teachings exceed the requirements of the Global Compact in a number of important ways:

1. They appear to be wider in scope, for example, in the development of human capital and transparency requirements in business transactions.
2. They have a clear codification defining what is permissible or *halal* and what is forbidden or *haram*.
3. Islam has an explicit enforcement mechanism in the *Shari'ah* as well as in the community and there is the final accountability of the individual for unethical behaviour on the Day of Judgement.

Thus, an investigation of Islamic financial institutions (Islamic banks) was relevant in this study

since they should establish or implement CSR practices which are at least comparable with or at best exceed those followed by conventional non-Islamic banks.

Methodology:

Data Collection:

The study tries to investigate on how the Malaysian Banking Institutions react towards these four dimensions of CSR. For that purpose, this paper employed content analysis of five years periods of annual report of Malaysian Banking Institutions. It comprises of total 29 banks which 17 conventional bank and 12 Islamic banks.

Content Analysis:

Qualitative content analysis is a method where we collect documents and texts (printed or visual) for their contents and deduce the information into categories (Bryman, 2012). It is also a method that demands codifying and categorizing the information, from a piece of writing, based on selected criteria (Weber, 1990). It assumes frequency of appearance of the same information indicates significance of the subject (Krippendorff, 2013; Weber, 1990). It is also a process to study human expressions which is in written or spoken form. The categories of consideration will be identified and listed down. After categorizing, the materials will be paraphrased, generalized and abstracted, which will be extracting the main facts and necessary information from the content analyzed. There will also be additional categories while going through the process when there is new relevant information that seems needed to be included into the data analysis (Mayring, 2008). All of these will be done manually.

As to how this study will make use this method to start with, we will glance through every year annual report for every bank listed, identify the categories and extract any statement within their bank policy indicates any consideration on natural environment risk, and have them content-analyzed. Through this, based on annual reports which are said showing the best impression of their corporate image and reporting, this study is able to see the commitment through environmental management reporting and make use of it to collect data for content analysis purpose.

Csr Based On Type Of Banks:

This part will be based on the type of banks, providing a more specific view and trend of the commitment in CSR, based on their types. From 29 banks, the list is divided into 2 categories which are conventional and Islamic banks as shown below.

Table 1: Number of banks based on their types.

Type of banks	Number of banks	%
Conventional banks	17	58.62
Islamic banks	12	41.38

Figure 1 shows the average total of frequency of CSR based on their types. It shows both conventional and Islamic banks are steadily progressing over the years, even though Islamic banks has a slight drop in 2011. However, conventional banks has better average total frequency of CSR as compared to Islamic banks. This shows how conventional banks have better commitment of CSR within their policy. It is expected that Islamic banks has better

commitment on CSR as what has been taught in Islamic teachings, but the result shows otherwise. This may be the cause of later establishment of Islamic banks in Malaysia as compared to conventional banks which has better stand and stability in the field. Due to that, CSR implementation has been a less priority for Islamic banks to begin to focus with.

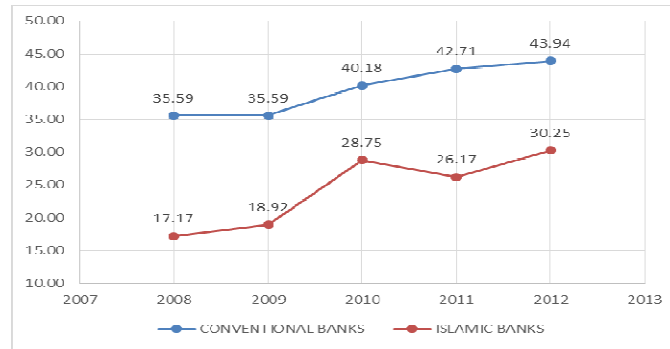


Fig. 1: Graph on average total frequency of CSR based on bank types .

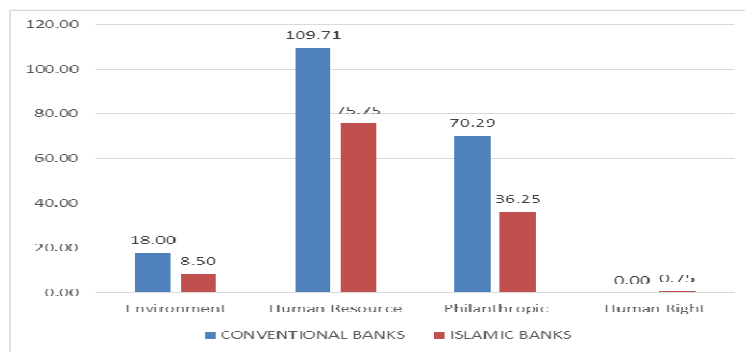


Fig. 2: Graph on average total frequency of CSR based on bank types.

Figure 2 shows the same result as before, that conventional banks has better commitment in CSR, even observed based on each variable. However, the figure shows that only Islamic banks with Human Right commitment within their CSR policy, while conventional banks have none. This shows only Islamic banks has prioritize human rights within their

policy. This figure also shows Human Resource is the highest contributor to the better commitment level for conventional banks.

To further deepen the analysis, the study has gone through standard deviation analysis to see the variation of the countries from each type of the banks.

Table 2: Standard deviation of CSR based on bank types.

Types of banks	Environment	Human Resource	Philanthropy	Human Right
CONVENTIONAL BANKS	30.56	133.67	107.73	0.00
ISLAMIC BANKS	14.36	52.75	66.19	2.05

Based, on table 2, it shows that Conventional banks have better standard deviation score on CSR implementation compare to Islamic banks counterpart.

Conclusion:

From the above result, the study may derive several conclusion based on the finding. First, as an overall, Malaysian banking system either Islamic or

conventional has a very good structure and implementation of CSR activities. This is based on the various CSR activities recorded in this study. It covers from natural environment, human resource, philanthropic and human resource. Second, Conventional banks are having better implementation of CSR activities compare to Islamic Banks. It is shown through the figure recorded in each activities of CSR under investigation Environment, human

resource, philanthropy and human right). This is advisable to future research to be conducted in this area in order to identify why Islamic banks are lack behind compare to Conventional banks. This might due to conventional bank are bank that has been in operation earlier than Islamic bank and also included foreign banks that are more expose towards CSR. Third, there is no activities recorded under human right for conventional banks compare to Islamic banks. This is open for discussion and further study to clarify this matter. One of the reason this is due to report emphasis on human resource compare to human right.

ACKNOWLEDGEMENT

Financial support for this study was provided by a grant from the Universiti Sains Islam Malaysia(USIM) under the Grant No: PPP/USG-0113/FEM/30/10813.

REFERENCES

- Arli, D.I. and H.K. Lasmono, 2010. Consumers' perception of corporate social responsibility in a developing country. *International Journal of Consumers Studies*, 34: 46-51.
- Aupperle, K.E., A.B. Carroll, J.D. Hatfield, 1985. An empirical examination of the relationship between corporate social responsibility and profitability. *Academy of Management Review*, 28(2): 446-463.
- Berle, A.A. and G.C. Means, 1932. *The modern corporation and private property*. New Jersey: Transaction Publisher.
- Bowen, H.R., 1953. *Social responsibilities of the businessman*. New York: Harper & Row.
- Bryman, A., 2012. *Social research methods*. Oxford University Press Inc.
- Carroll, A.B., 1979. A three-dimensional conceptual mode of corporate performance. *Academy of Management Review*, 4(4): 497-505.
- Carroll, A.B., 1991. The pyramid of corporate social responsibility: Towards the moral management of organization stakeholder. *Business Horizons*, 34(4): 39-48.
- Carroll, A.B., 1994. Social issues in management research." *Business and Society*, 33(1): 5-25.
- Carroll, A.B., 1999. Corporate social responsibility. Evaluation of definitional construct. *Business and Society*, 38(3): 268-295.
- Davis, K., 1960. Can businesses afford to ignore social responsibility? *California Management Review*, 2(3): 70-76.
- Dusuki, A.W. and T.F.M.T.M. Yusuf, 2008. The pyramid of corporate social responsibility model: empirical evidence from the Malaysian stakeholder perspective. *Malaysian Accounting Review*, 7(2): 32-58.
- Edmondson, V.C. and A.B. Carroll, 1999. Giving back: An examination of the philanthropic motivations, orientations and activities of large Black-owned business. *Journal of Business Ethics*, 19(2): 171-179.
- Epstein, M., Edwin, 1987. The corporate social policy process: beyond business ethics, corporate social responsibility and corporate social responsiveness. *California Management Review*, 29(3): 99-114.
- Frederick, W.C., 1960. The growing concern over business responsibility. *California Management Review*, 2(4): 54-61.
- Ibrahim, N.A. and J.P. Angelidis, 1995. The corporate social responsiveness orientation of board members: Are there differences between inside and outside directors? *Journal of Business Ethics*, 14(5): 405-410.
- Ibrahim, N.A., D.P. Howard, J.P. Angelidis, 2003. Board members in the service industry: An empirical examination of the relationship between corporate social responsibility orientation and directorial type. *Journal of Business Ethics*, 47(4): 393-401.
- Ibrahim, N.A. and F. Parsa, 2005. Corporate social responsiveness orientation: Are there differences between U.S and French managers? *Review of Business*, 26(1): 27-33.
- Jones, T.M., 1980. Corporate social responsibility revisited, redefined. *California Management Review*, 22(3): 59-67.
- Krippendorff, K., 1980. *Content analysis: An introduction to its methodology*.
- Kusku, F. and A. Zarkada-Fraser, 2004. An empirical investigation of corporate citizenship in Australia and Turkey. *British Journal of Management*, 15(1): 57-72.
- Maignan, I., 2001. Consumers' perceptions of corporate social responsibilities: A cross-cultural comparison. *Journal of Business Ethics*, 30(1): 57-72.
- Marz, J.W., T.L. Powers, T. Queisser, 2003. Corporate and individual influences on managers' social orientation. *Journal of Business Ethics*, 46(1): 1-11.
- O'Neill, H.M., C.B. Saunders, A.D. McCarthy, 1989. Board members, corporate social responsiveness and profitability: Are tradeoffs necessary? *Journal of Business Ethics*, 8(5): 353-357.
- Peterson, D.K., 2004. The relationship between perceptions of corporate citizenship and organizational commitment. *Business and Society*, 43(3): 296-319.
- Pinkston, T.S. and A.B. Carroll, 1996. A retrospective examination of CSR orientations: Have they changed. *Journal of Business Ethics*, 15(2): 199-206.
- Pinkston, T.S. and A.B. Carroll, 1994. Corporate citizenship perspective and foreign direct investment

in the U.S. *Journal of Business Ethics*, 13(3): 157-169.

Ramasamy, B. and M. Yeung, 2009. Chinese consumers' perception of corporate social responsibility (CSR). *Journal of Business Ethics*, 88: 119-132.

Smith, W.J., R.E. Wokutch, K.V. Harrington, B.S. Dennis, 2001. An examination of the influence of diversity and stakeholder role on corporate social orientation. *Business and Society*, 40(3): 266-294.

Smith, W.J., M. Singal, W.B. Lamb, 2007. Corporate social orientation in Japan and the USA: A cross-cultural comparison. *International Journal of Organizational Analysis*, 15(3): 181-209.

Weber, R., 1990. Basic content analysis. *Qualitative Applications in the Social Sciences*.