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Corporate Social Responsibility (CSR) and Islamic Banks: A Synthesis of Literature Review

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Abstract

In the past 30 years, Islamic banks have developed tremendously across the various countries. Currently, challenges occurring in the global financial market operations have affected the development of Islamic banking practice. Key reports in the field have suggested that CSR activities are important in tackling this issue. Although the literature pertaining to CSR activities is extensive, the insights emerging from this to date have been limited. Whilst it is acknowledged that there are various dimensions to the study of CSR, including exploring CSR practices, the CSR concept, the CSR framework, CSR measurement, CSR dimension, CSR relationships, CSR impact and CSR determinants, the primary focus of this paper is to explore CSR practices. The findings from the current literature have found that CSR activities are not at a satisfactory level. The present paper will suggest that CSR activities should be integrated with Islamic and conventional elements in accordance with Shariah principles under the 'Urf (customs) principle. It is expected that integrated CSR activities will attract practitioners to improvise current CSR strategies. It is suggested in addition that such a move would improve knowledge of CSR and Islamic banking in the academic world.

Keywords: Corporate social responsibility, Islamic banks, Literature review, 'Urf principle

1. INTRODUCTION

The Islamic financial services industry (IFSI) has developed tremendously (Hussain, Shahmoradi, & Turk, 2015) and has become one of the rapidly growing segments in the global financial industry (Maswadeh, 2015). The global Islamic financial assets are on an increasing trend (from the mid-1990s to 2003 they increased by 33% and from 2003 to the first half of 2014 by 89%) (Grewal, 2015). In light of the current economic situation, the global Islamic financial assets are expected to continue to maintain an upward trend amidst the slower pace (by 58% from the year 2014 to 2018) (BNM, 2015). The continuous increasing trend in the global Islamic financial assets indicates that Islamic financial products and services have been well accepted by both Muslim and non-Muslim market participants (Smolo & Mirakhor, 2010). Particularly, amongst the IFSI, the Islamic banking sector is the most established and leading sector which has conquered 80% of the global Islamic financial assets (Groff & Ahmed, 2015). The domination of the Islamic banking sector is due to the growth of assets (Grewal, 2015), a wide range of products (EY, 2013), and expansion of the location (IFSB, 2015).

However, since 2014, the oil price has drop which has caused fluctuations in the equity prices and debt instruments (IFSB, 2015). This volatility has subsequently led to a stringent focus on risk management, which in turn has resulted in lower financing activity (IFSB, 2015). Continuously, 2015 had been a challenging year for IFSI including the Islamic banking sector due to other economic challenges as well. IFSI has faced economic

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challenges from the prolonged lower energy price, low commodity price, geopolitical conflicts, depreciation of the exchange rates in the emerging markets, and revision in the economic growth outlook, which have led to the weaker confidence of the investors and consumers in the global economy (IFSB, 2016). Particularly, the Islamic banking sector grew moderately by 1.4% from 2014 to 2015 (IFSB, 2016).

Indeed, strategies should be conducted in order to attract stakeholders. A report by credible organisations, Ernst & Young (EY) (2013) and Securities Commission Malaysia (SCM) (2011) have proposed that the Islamic banking sector should conduct corporate social responsibility (CSR) activities. The concept of CSR is to act beyond the philanthropic activities and to commit in the economics, social aspects, and environment of the organisation's objectives in order to achieve sustainable growth (Apaydin, 2015; Tuhin, 2014). EY (2013) suggested that the Islamic banking sector should incorporate the ethical elements as well. The implantation of CSR activities will create awareness about the banking operations and will increase the stakeholder's loyalty and confidence, as well as the good reputation and improvement in the investment and deposits of the bank (Tuhin, 2014). Hence, CSR would further expedite the growth of the Islamic banking sector and ensure the sustainability and competitiveness of the industry. In addition, CSR is an integral part of the Islamic moral economy which is aimed at the development of human and economic aspects with social justice objectives (Platonova, 2013). Since Islamic banks are deposit-taking institutions of the Islamic moral economy, Islamic banks are required to conduct CSR activities within the Islamic moral economy expectations (Nor & Asutay, 2011).

This paper delivers systematic reviews of CSR practices in Islamic banks. In this regard, the paper aims to address the following research questions: (1) What has been studied in relation to the topic of CSR over the past five years (2011-2015)? (2) What is the primary focus of these studies? (3) What are the recommendations emerging from these studies? The outcome of the discussion will provide beneficial insights for those practitioners aiming to develop Islamic banking strategies in the near future. It will also make academicians more aware of the current status of CSR in the Islamic banking sector.

2. LITERATURE REVIEW

2.1 The concept of CSR

Historically, Friedman (1970) highlighted that the fundamental of CSR should only be making profit. Meanwhile, Freeman (1984) believed that an organisation should have responsibilities towards the shareholders and stakeholders. In addition, Carroll (1979) had created a CSR framework that consisted of four dimensions, which were economic, legal, philanthropic, and ethical. Carroll's (1979) framework is one of the famous frameworks and has been tested over time (Dusuki & Yusof, 2008). Although there have been many attempts to provide a better definition of CSR, there is still no universally accepted definition of CSR (Hou & Li, 2014). Dahlsrud (2008) argued that there is confusion in the CSR definition due to the unexplainable aspects of CSR in the business operation, and most researchers merely focus on the definition of the CSR phenomenon only. Whereas, Khurshid, Al-Aali, Soliman, and Amin (2014) opined that CSR practices vary in every country due to the difference in cultures, atmospheres, and religions. From the researchers' point of view, CSR is identified to conduct broader social and environmental responsibility, which goes beyond profit maximisation (Pomering & Johnson, 2009). In addition, CSR activities go beyond philanthropic purposes which are incorporated with the organisation's economic, social and environmental objectives (Tuhin, 2014). Hence, the CSR concept is to sustain and strengthen the relationship between organisations, communities, and employees (Oh & Park, 2015) which are incorporated with the dimensions of environment, social, economic, stakeholder, and voluntariness (Dahlsrud, 2008).

2.2 Islam and CSR

The word of Islam is derived from the Arabic words salaam (Khir, Gupta, & Shanmugam, 2008). Islam believes that there is only one God in this world (Abu-Youssef, Kortam, Abou-Aish, & El-Bassiouny, 2015). Islam provides a set of guidelines that have a direct impact on all aspects of human life including the development of social and economic activities (Khir et al., 2008). Evidently, the population of the followers of Islam is projected to increase to 27.4% in 2050 (Pew Research Centre, 2015). Therefore, it shows that the importance of Islam is increasing (Abu-Youssef et al., 2015), and Islam is a significant religion in the world and has its own identity. Indeed, the study of CSR in the West and Islam is different (Gaither & Al-Kandari, 2014). The study of CSR in Islam is referred from the guidance of Al-Quran and Sunnah (Yusuf & Bahari, 2011).

Previous scholars have opined different thoughts regarding CSR and Islam. Consequently, the basis of CSR in Islam is derived from the concept of Taqwa (Dusuki, 2008a), concept of Tawhid (Muhamad & Muwazir, 2008), four ethical axioms which are unity, equilibrium, free will, and responsibility (Mohammed, 2013), concept of Khalifah (Jusoh, Ibrahim, & Napiah, 2015) and the principle of vicegerency, the principle of divine accountability, and the principle of enjoining good and forbidding evil (Farook, 2007). Although different scholars have proposed different concepts in determining CSR in Islam, in summary, the definition of CSR in Islam is the same. The definition of CSR in Islam is that every individual is accountable to act good towards the universe (society and environment) besides believing in and worshipping Allah (God), in order to achieve *al-Falah* (success in this world and the hereafter) from Allah and avoid being punished.

2.3 The ideal of Islamic banks

Islamic banks are business entities (Imam & Kpodar, 2013) which operate on a Shariah-based philosophy that aims to achieve profit and to conduct social responsibility activities (Dusuki, 2008b). In order to perform both profitable and social responsibilities, Mohammad and Shahwan (2013) suggest that Islamic economic objectives should guide the Islamic banks. Mohammad and Shahwan (2013) had summarised that the objectives of Islamic economics consist of two sectors which are the philosophical-based objective (*al-Falah*) and the operation-based objective (economic, social, justice, harm elimination, and state participation). Compatible with this, the Islamic banks' purpose is to prohibit the activities of *riba* (interest), *maysir* (gambling), *gharar* (ambiguity), and investment in an unlawful sector, and the use of financial products should highlight profit-loss sharing (equity) which is under the Shariah law (Malik, Malik, & Mustafa, 2011). It is suggested by Mohamad and Shahwan (2013) that all of these objectives will provide a holistic direction and achieve *Maqasid al-shariah* (objectives of Islamic law) in the Islamic banking sector. Most importantly, Islamic banks are not a replication of conventional banks. Indeed, Islamic banks are accountable to conduct CSR activities (Jusoh et al., 2015). This is due to the fact that CSR is an obligation for every Muslim (Jusoh et al., 2015; Taman, 2011), and the Islamic banks' operation has been run and managed by an individual (Jusoh et al., 2015).

3. RESEARCH METHODOLOGY

To obtain a comprehensive review, the researchers searched academic papers from the Web of science, Scopus, Google scholar, Emerald, Springer, and Science Direct for the past five years (2011-2015). The review date was restricted in order to deliver up-to-date information to the readers regarding CSR and Islamic bank studies. Keywords, such as Islamic corporate social responsibility, corporate social responsibility, social responsibility, corporate responsibility, socially responsible, CSR, Islamic banking, Islamic financial institutions, and Islamic finance, had been used for the title, abstract, and keywords. There were 36 relevant articles from both conceptual papers and empirical papers. The topics consisted of exploring CSR practices, the CSR concept, the CSR framework, CSR measurement, CSR dimension, CSR relationships, CSR impact, and CSR determinants. Some of the articles were conducted on both topics. Hence, the researchers separated the topics in order to acknowledge which topics dominated with the study of CSR.

4. ANALYSIS AND RESULTS

4.1 The overview of the current literatures from 2011 to 2015

The review of the current literatures shows that most of the papers focused on exploring the CSR practices. Table 1 shows the number of topics according to sequences. Therefore, the researchers have focused on exploring CSR practices due to its dominance in the CSR topics.

Table 1: Number of topics from 2011 to 2015

No.	Topics	Number of topics
1	Exploring CSR practices	17
2	CSR framework	9
3	CSR determinants	6
4	CSR concept	4
5	CSR relationships	4
6	CSR measurement	2
7	CSR dimensions	2
8	CSR impact	2

4.2 Exploring CSR practices

Bhuiyan, Imran, and Fatema (2015) studied whether practitioners were aware of the ethical principle and employed it in the organisation. However, the result shows that there was a lack of awareness and attitude towards the ethical principle in the branch level management. Sairally (2013) studied the perceptions of the social responsibilities. Indeed, practitioners are aware of the social responsibilities and have even agreed that social responsibility practice should be integrated into the social, ethical, and environmental aspects; as well, it is equally important in profit and social objectives. However, when Sairally (2013) verified the practitioners' views with the actual practice (annual report and websites of 46 Islamic financial services), it seems that the view and the practice contradicted each other. On the contrary, Nor and Asutay (2011) have been gathering the perception of customers on CSR practice. The result from the questionnaires found that customers were aware of the CSR practice and expected that CSR in Islamic banks would move towards ethical and moral dimensions as well as improve community and economic development. However, when the actual scenarios of ethical and moral elements were questioned, the customers' opinions were discouraging. Nor and Asutay (2011) suggest that Islamic banks should refer to the Islamic moral economy model (faith, economics, and moral and ethical values) in order to conduct a sustainable social development. Cecebi (2012) found that the Islamic finance industry is not consistent with the concept of social *maslahah* by using the critical analysis approach. Social *maslahah* can be identified as conducting a longer term of sustainable projects and development of a society at an individual or institutional level and not merely for charity purposes.

Meanwhile, the remaining scholars have explored CSR practice using the content analysis method, solely. Evidently, Aribi and Gao (2011) found that there were Islamic elements in the CSR practice disclosed in the annual report. Ali and Rahman (2015) found that Islamic banks are more in favour to disclose activities in social welfare. Nevertheless, the results found that there was a lower disclosure of CSR practice (El-Halaby & Hussainey, 2015; Farook, Hassan & Lanis, 2011; Mosaid & Boutti, 2012) and not all of the dimensions (Aribi & Arun, 2015; Khan, 2013; Rahman & Bukair, 2013) had been disclosed. For instance, less attention had been given to the environment dimension (Aribi & Arun, 2015; Mallin, Farag, & Ow-Yong, 2014; Rahman & Bukair, 2013). Furthermore, Islamic banks were likely to disclose economic objectives (El-Halaby & Hussainey, 2015; Rashid, Abdeljawad, Ngallim, & Hassan, 2013) but there was an absence of social and ethical elements in the CSR practice of the Islamic banks (Aribi & Arun, 2015; Khan, 2013; Rahman & Bukair, 2013). Darus et al. (2014) agreed that Islamic banks failed to disclose CSR activities in all of the dimensions. On the other hand, it seems that Islamic banks fulfilled the mandatory forms of CSR dimensions compared to the recommended forms (Samina, 2012). This has been agreed on by Mallin et al. (2014) as Islamic banks tend to focus on the mandatory disclosure based on the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) compared to the voluntary disclosure. Therefore, in summary, although practitioners understood about the practice of CSR, but not all of the Islamic banks in the world have practiced CSR comprehensively unless it is mandatory.

Most of the Islamic banks' practices had diverted from the Islamic economic theory (Sairally, 2013). Most of the studies showed that CSR failed to conduct CSR activities for both economic and social objectives equally. Although practitioners were aware of the importance of CSR practice, the level of CSR practice was still not sufficient enough. Hence, there are scholars who have proposed to provide an integrated CSR framework with a wider approach in order to promote social and economic development.

4.3 CSR and Islamic banks: Moving forward

The current condition of the global financial market has affected the Islamic banking sector. There is a moderation level of the banking asset sector globally. In order to overcome this issue, EY (2013) and SCM (2011) suggest the importance of conducting CSR activities. However, the current practices of CSR in Islamic banks are not at a satisfactory level. In fact, it is different from the objectives of Islamic economics. Although there are many CSR frameworks that have been proposed by the scholars as well as the existence of the AAOIFI, the Islamic banking sector still does not disclose all the dimensions. Therefore, it is suggested that Islamic banks should revise their CSR model in order to achieve success in this world and the hereafter. Jusoh, Ibrahim, and Napiyah (2014) stressed that CSR is important in Islamic banks and there is a need to develop a CSR framework, comprehensively. Nor, Rahim, and Senik (2015) agreed that a social banking model is needed for Islamic banks. Tuhin (2014) highlighted that Islamic banks should select the right items for their CSR activities in order to sustain a long-term business.

Therefore, researchers have proposed that the CSR framework should be integrated with Islamic and conventional elements which suit the environment in accordance with the '*Urf* principle. According to Hakim

(1994), some of the scholars refer to verse 7:199 in the Quran as the basis for the application of the 'Urf principle: "Take things at their face value and bid to what is customary (or accepted by local tradition), and turn away from the ignorant". The 'Urf principle is the current practice by the people in their daily life whether good or bad (Bello & Hassan, 2013). The valid custom of 'Urf is when the practice of the people does not contradict the Shariah principles (Bello & Hassan, 2013). 'Urf, which can be known as customary law, is one of the prominent sources in supporting Islamic law (Bello, Yasin, Hassan, & Bin, 2015). For instance, Al-Shafi'I (d.204AH/820E) made *ijtihad* on many problems that arose during his stay in Iraq. However, when he moved to Egypt, he changed his mind on certain opinions due to the different customs and practices in Egypt. Therefore, 'Urf plays an important role in Islamic law as well as Islamic business organisations. Due to the current global financial market conditions, with most of the countries having both Muslim and non-Muslim populations, and the competition from dual banking systems (Al-Ajmi, Hussain, & Al-Saleh, 2009) in local and foreign banks (Din, 2012), it has led to the need of an integrated CSR framework (Islamic and conventional CSR practices) on the basis of the 'Urf principle. Although we have the AAOIFI standard, Ahmad and Daw (2015) found that there were weaknesses in the AAOIFI standard, which need to be fixed so that it will complement the Global Reporting Initiative 4 (GRI4). Indeed, GRI4 has been widely used (KPMG, 2015), but no Islamic principles have been provided in the standards. Hence, the integrated CSR framework (Islamic and conventional CSR practices) will suit the current global environment, comprehensively.

5. CONCLUSION

In conclusion, it is important to uplift Islamic banks globally due to our accountability to Allah as Muslims, the unique characteristics of the Islamic banking system, and the potential to grow further as discussed earlier. In order to overcome some of the challenges occurring in Islamic banks, researchers have proposed that there is a need for a refinement in the CSR framework to keep up with the current situation incurred nowadays. The researchers propose an integrated CSR framework (Islamic and conventional CSR practices) under the application of the 'Urf principle. Although this article has provided some insights on the current literature of CSR and Islamic banks, there are still limitations, due to time constraint, which need to be conducted in the future research. Firstly, future research should search for other terms in literature reviews, such as Islamic business ethics and sustainability. The reason for this is because Islamic business ethics and CSR have common elements, such as both practices are built on strong values, responsible behaviour, and sustainability (Ismaeel & Blaim, 2012). Secondly, there is a need to develop an integrated CSR index (Islamic and conventional CSR practices) on the basis of the 'Urf principle for the reference of the practitioners and academicians with a detailed explanation of the 'Urf principle.

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