

Stakeholders' Perceptions of Corporate Social Responsibility of Islamic Banks: Evidence from Malaysian Economy

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The Corporate Social Responsibility has been a subject of considerable debate in the West for several decades. It is becoming increasingly common practise for banks in the United Kingdom and other European countries today to have established guidelines on ethical and social responsible issues such as environmental, charitable giving and support for the community, human rights and reducing social and financial exclusion. The topic of social responsibility and ethical banking is of relevance especially for those involved in Islamic banking and finance who regard their ethics and social responsibility as being more enduring since they are ultimately based on divine revelation, whereas ethics derived from secularist morality are inevitably transitory. Using a sample of over 1500 respondents, this paper, therefore, aims to explore the perceptions of the various stakeholders of Islamic banks in Malaysia regarding the social responsibility of Islamic banks. The paper is based on data collected from multiple stakeholder groups of two full-fledged Islamic banks in Malaysia namely, Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB).

1. Introduction

The past three decades have witnessed the emergence of Corporate Social Responsibility (hereafter CSR) as a field of study and a framework for the role of business corporations and financial institutions in society. It outlines the standard of behaviour to which a firm must subscribe to impact society in a positive and a productive manner at the same time as abiding by values which exclude profit seeking at any cost. In United Kingdom the concern for ethical investment and socially responsible firm has grown in popularity since the mid-1970s. Since then, there have been significant developments in the field of CSR, not least within the financial sector. According to a research conducted by Ethical Investment Research Services (EIRIS) there are now more than 50 retail ethical investment funds in the UK. These funds all apply environmental, social and/or other ethical criteria to the

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selection of their investments. The estimated value of these funds stood at £4 billion in August 2001 (EIRIS 2003).

The emerging of ethical banking and finance along with the propagated doctrine of CSR in the West is really a phenomenon that requires an instructive examination from the Islamic perspective. The topic of social responsibility and ethical banking is of relevance for those involved in Islamic banking and finance who regard their ethics and social responsibility as being more enduring since they are ultimately based on divine revelation, whereas ethics derived from secularist morality are inevitably transitory (Wilson 2001).

This paper focuses on the fundamental issues like perception of CSR of Islamic banks from multiple stakeholder groups' perspectives. By adopting the stakeholder approach, we believe it will become a potential relevance for Islamic banks, particularly in their policies and dealings with the aim to identify and build on stakeholder synergies to secure benefits for the widest possible constituency. So far, study on CSR from an Islamic perspective or even to investigate the practise of social responsibilities of Islamic banks is almost non-existence. Thus, providing empirical evidence on CSR of Islamic banks from different perspectives of various stakeholder groups in Malaysia will certainly add a new dimension to the literature.

The remainder of the paper proceeds as follow: The following section describes the phenomenon of CSR in the West. The relevance of CSR to Islamic banks is further analysed in section three. Study questions and research methodology adopted in this study are discussed in section four. While the findings are offered in section 5, the conclusion is presented in the final section.

2. The Emergence of CSR in the West

The intensive ethical debate since 1950s has influenced businesses to be more humane, ethical and transparent (Maignan and Ferrell 2003), giving rise to conscience over sustainable development,¹ corporate citizenship,² sustainable entrepreneurship, triple bottom line,³ business ethics and CSR (Marrewijk 2003). This paper focuses on CSR.

CSR is constantly evolving and incorporates different approaches depending on circumstances and needs. Surge in interest in CSR doctrine partly reflects a

¹ World Commission on Environment and Development defines sustainable development as the development that meets the needs of the present without compromising the ability for future generations to meet their own needs. See in Marrewijk (2003).

² Marsden and Andriof (2001) define good corporate citizenship as "understanding and managing a company's wider influences on society for the benefit of the company and society as a whole". See in Marrewijk (2003).

³ Elkington (1997) states that "Tripple Bottom Line" or "People, Planet, Profit", refers to a condition whereby companies focus not only on their economic viability and performance but also on their social and environmental impacts. See in Marrewijk (2003).

continued discontentment amongst business communities with regards to the restrictive and sometimes misleading worldview entrenched in the self-interest, and secularist and hedonistic individualism underlying the Western economic worldview (Al-Attas 1991; Steidlmeier 1992; Al-Attas 1995, 1996; Haneef 1997; Sardar 2003). This discontentment is in part exacerbated by increasing business scandals (e.g. Frauds, breach of trusts, misrepresentations and other unethical behaviours) involving large corporations such as Barings, Enron, Arthur Anderson, WorldCom and a number of others (Snider, Hill et al. 2003).

Moreover, the CSR started to figure prominently in public debate in the wake of increasing social problems such as poverty, unemployment, race, gender and religious discrimination, and pollution (Boatright 1993). These social problems are natural outcomes of continuous transformation in the market due to economic globalisation, technological revolution as well as demographic and political change (Dunning 2003).

CSR literature identifies several driving forces behind the growing trend towards CSR initiatives.⁴ First, there is a growing market pressure whereby customers, employees, or capital markets exert some form of preference, pressure or signal. Social and ethical issues have received increasing public attention or as market signals apart from the traditional price and brand preferences.⁵ The growth of the ethical investment industry is another indication of how much emphasis people are now apparently placing on the social and ethical behaviour of companies (EIRIS 2003). Second, there has been an increasing regulatory pressure ranging from reporting requirements to government regulations that introduce compulsory business standards upon which companies of all sizes have to abide.⁶

Third, increased power of communications (e.g., internet, electronic media, and others) have driven consumers and pressure groups like social activists, non-governmental organisations (NGOs) and trade unions to scrutinise the activities of companies more effectively and develop strategies that may influence companies to act in a socially responsible way. Fourth, there is a competitive advantage that

⁴ Refer to CSR Europe (2000), (2001), European Union (2001), CSR Europe (2002), Porter and Kramer (2002), Davies (2003), Johnson (2003), Snider, Hill, et al. (2003), Vuontisjarvi (2004).

⁵ Research carried out in 1998 by MORI showed that in the last 12 months, 17% of those questioned had boycotted a company's product on ethical grounds, while 19% had chosen a product or service because of a company's reputation. Again in 1998, 71% of the general public questioned felt that industry and commerce do not pay enough attention to their social responsibilities (see in Lunt (2001)).

⁶ According to Davies (2003), many business standards in the industrialised Organization for Economic Cooperation and Development (OECD) countries were once voluntary in nature. Subsequently due to the changing circumstances, the standards have now become compulsory. The standards include provisions such as ethical behaviour, health and safety regulations, and minimum wages and working hours.

companies believe they can reap by being socially responsible. They foresee that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brand, enhance their corporate reputation with customers and suppliers, and attract and retain a committed and skilled workforce. Indeed, extant literature asserts that, the commitment towards CSR will in turn lead to better performance in terms of profitability, competitiveness and risk management (Waddock and Graves 1997; O'Brien 2001; Porter and Kramer 2002; Brinkman 2003; Johnson 2003; Snider, Hill et al. 2003).

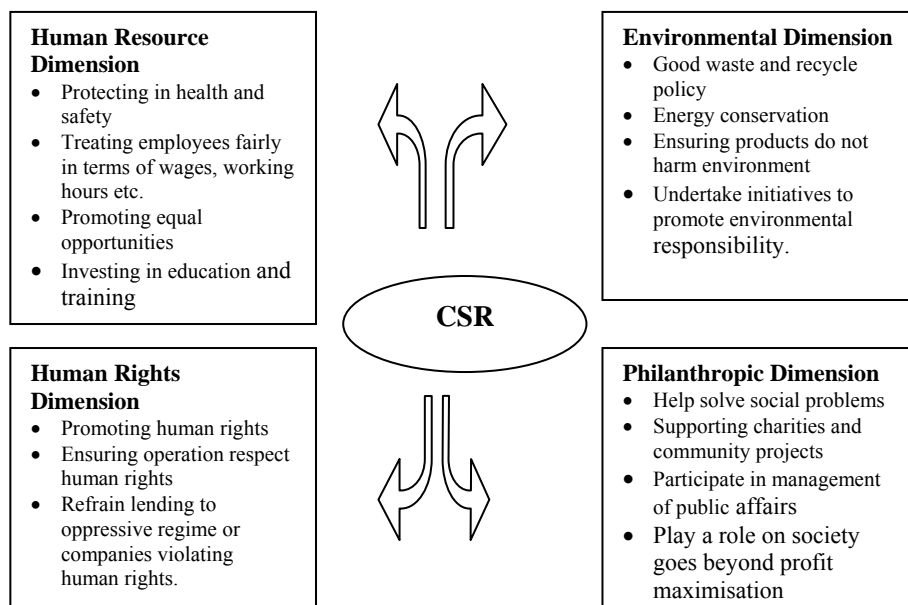
Consequently, these factors give rise to the issues of corporate risks, in the form of legal risks or what is emerging as moral risks. The former entails adverse consequences for the company or its officers arising from non-compliance with the law, while the latter is concerned with reputation which may not involve legal action. However, moral or reputational risks can exert intense pressure on management and damage business goodwill and its survival, if neglected or abandoned (Davies 2003). For example, if a company focuses only on efficiency and externalities as much of its costs as possible to the detriment of society, it will ultimately face social sanctions that will at the very least increase its costs or could put it out of business altogether.

In general, CSR is essentially a concept whereby companies decide voluntarily to contribute to a better society and a healthier environment. As stated in a Green Paper produced by the European Commission:

“An increasing number of companies are promoting their corporate social responsibility strategies as a response to a variety of social, environmental and economic pressures. They aim to send a signal to the various stakeholders with whom they interact: employees, shareholders, investors, consumers, public authorities and NGOs. In doing so, companies are investing in their future and they expect that the voluntary commitment they adopt will help increase their profitability.”(EU 2001)

Notwithstanding the conspicuous differences between the accounts of the concept and definitions of CSR offered by the literatures, there is wide agreement on the central features of what is commonly called the doctrine of CSR. In sum, CSR addresses some of the following areas: (1) the environmental dimension, (2) the human resource dimension, (3) the philanthropic dimension, and (4) the human rights dimension. Figure 1 depicts the broad dimensions of CSR practises, as widely mentioned and adopted, as a research framework in the Western literature.

Figure 1: Dimensions of CSR Practice



The lists above, although they are not exhaustive, may provide a general overview of the meaning of CSR and serve as a framework for conducting research on it. The countless examples of activities and dimensions of CSR of the aforementioned lists are adopted in much literature on CSR.⁷

3. Implications of CSR to Islamic Banks

Although Islamic banks and Western banking and ethical institutions have dissimilar values and aspirations as they are operating in different philosophical constructs and environments, there are numerous lessons that each can gain from the other's experience. In particular, some of the dimensions of CSR in Islamic banks may also resemble those which have already been recognised in the West. Hence, this study finds that the areas and dimensions of CSR as proposed by many Western theoreticians and international bodies (refer to Figure 1) may well be applied to Islamic banking since most of them are consistent with the spirit and the teachings of Islam. Table 1 provides some selected sources from the Holy Qur'an and the *Hādīth* of the Prophet (pbuh) to substantiate our claim.

⁷ See for example Aurpele, Carroll, et al. (1985), Wartick and Cochran (1985), Wood (1991), Pikston and Carroll (1994), Lewin, Sakano, et al. (1995), Swanson (1995), Maignan (2001), Ruf, Muralidhar, et al. (2001), Maignan and Ferrell (2003), Angelidis and Ibrahim (2004), Goll and Rasheed (2004)

Table 1: Islamic Perspectives on CSR Practises

Western Guidelines to CSR Practises	The Selected Corresponding Sources from the Qur'an and <i>Hadith</i> of the Prophet
1. Human Rights Dimension	<ul style="list-style-type: none"> ▪ "I have made oppression unlawful for Me and for you, so do not commit oppression against one another" Sahih Muslim, Vol.3 <i>Hadith</i> No. 6254. ▪ "help thy brother whether he is the oppressor or the oppressed i.e. If he is an oppressor he should prevent him from doing it, for that is his help and if he is oppressed he should be helped (against oppressor)" Sahih Muslim, Vol.3, <i>Hadith</i> No. 6246.
2. Human Resource Dimension	<ul style="list-style-type: none"> ▪ "Your employees are your brethren upon whom Allah has given you authority. So if one has one's brother under his control, one should feed him with the like of what one eats and clothe him with the like of what one wears. You should not overburden him with what he cannot bear, and if you do so, help him in his job." Sahih Muslim Vol. 3, <i>Hadith</i> No.4093. ▪ "Allah (SWT) says: "I will be an opponent to three persons on the Day of Judgement: One who makes a covenant in My Name, but he proves treacherous, One who sells a free person (as slave) and eats the price, and one who employs a labourer and gets the full work done by him but does not pay him wages" Sahih al-Bukhari Vol. 3: <i>Hadith</i> No. 2.

Western Guidelines to CSR Practises	The Selected Corresponding Sources from the Qur'an and <i>Hadith</i> of the Prophet
3. Environmental Dimension	<ul style="list-style-type: none"> ▪ “And when he goes away, he strives throughout the land to cause destruction therein and destroy crops and animals. And Allah does not like mischievous act. (2:205). ▪ “And do no mischief on the earth, after it has been set in order, but call on Him with fear and aspiration. Indeed the mercy of Allah is near to the doers of good. (7:56).
4. Philanthropic Dimension	<ul style="list-style-type: none"> ▪ “And fear Allah as much as you can, listen and obey; and spend in charity for the benefit of your own souls. And those saved from the covetousness of their own souls; they are the ones who achieve prosperity.” (64:16)⁸ ▪ “Every Muslim must pay <i>sadaqah</i> (charity). The companion asked, “What about someone who has nothing to give?” The Prophet replied, “Then let him do something with his two hands and benefit himself. That will be charity.” The companion asked, “But what if he cannot do that?” The Prophet replied, “Then he can help someone who is needy.” Again they asked, “But what if he cannot do that?” The Prophet replied, “Then he should enjoin the doing of good.” Still again they asked, “But what if he cannot do that?” The Prophet replied, “Then he should give respite from evil, for that is a form of charity.” Al-Bukhari's <i>Adabul Mufrad</i>, <i>Hadith</i> No. 225.

Indeed, the philosophy of Islamic business as enshrined by the Shari'ah requires Islamic bank to operate in morally, ethically and socially responsible manner i.e. Conforming to the Islamic norms of business and economic activities. Thus, the concept of CSR as discussed in preceding section is a natural commitment of Islamic institutions particularly Islamic banks whose objectives are directed towards making brotherhood, social equality and equitable distribution a reality in Muslim societies. Al-Omar and Abdel-haq (1996) indicate the duty of Islamic

⁸ There are at least 64 different verses of the Qur'an, in which Allah mentions the virtues and importance of charity and philanthropic effort. See in the Qur'an (2:43, 83, 110, 177, 215, 263, 264, 270, 271, 273, 274, 276, 277, 280; 4:77, 114, 162; 5:12, 45, 55; 7:156 etc.) Also refer to Al-Bukhari (1980), (1997).

banks towards the society in which they operate by providing a clear expression outlined in the public statement of the International Association of Islamic Banks (IAIB):

“The Islamic Banking system involves a social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or development activities, the Islamic bank takes into prime consideration the social implications that may be brought about any decision or action taken by the bank. Profitability – despite its importance and priority – is not therefore sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected.” (IAIB 1990 as quoted by ((Al-Omar and Abdel-ḥaq 1996) p.27)

This statement represents the core of what the theoretician of Islamic banking expects Islamic banks to do in terms of social responsibility. Clearly, Islamic banks operating on the Shari‘ah-based philosophy and principles differ significantly from their conventional counterparts that are deeply rooted to the capitalistic profit-maximisation philosophy. As for Islamic banks, the intense commitment of Islam to brotherhood and justice makes the well-being of all human beings the principle goal of Islam. This well-being includes both physical and spiritual satisfaction of the human personality encompassing the happiness in the present world and the hereafter. Therefore, maximisation of outputs cannot be sufficient goal of a Muslim society, rather it has to be accompanied by efforts directed to ensure spiritual health at the inner core of human consciousness, and justice and fair-play at all levels of human interaction.

Having mentioned this, it is ill-conceived however for someone to believe that Islamic banks are charitable organisations which are obliged to provide monetary assistance as requested. Similarly, it is inappropriate for the management of Islamic banks to emphasise on the profit maximisation policies alone while neglecting other social obligations (Haron 1995). Instead, Islam which upholds the principle of justice strives for balance between profit objective and social objective. It is considered unjust for Islamic banks if they are unable to provide sufficient returns to the depositors as well as the shareholders who entrusted their money to Islamic banks. Likewise Islamic banks are prohibited from making excessive profits at the expense of their customers or the local community at large.

Patronage Studies of Islamic Banks

The previous sections have demonstrated how CSR should be naturally evidenced in the practise of Islamic banks. Even though much literature on Islamic

banking proclaims the unique and distinctive characteristics embodied in Islamic banks, particularly concerning their ethical norms and social commitments, studies on CSR from an Islamic perspective, or even investigation of the opinions and attitudes of various stakeholder groups of Islamic banks on the issue as extensively researched in the west today, are almost non-existent. Even a spectrum of related studies that exist on the topic of Islamic business ethics are mainly concerned with the conceptual and theoretical discussion, rather than providing actual empirical evidence on the perception, attitudes or behaviour of those involved in the Islamic banks.⁹

Furthermore, despite the claim most often made that the Islamic banks are a true reflection of Shari'ah-compatible formulation, which the clients themselves respect and believe in, previous empirical studies found that religious motivation is not the only criterion for the selection of Islamic banking institutions or services. Many of the banking patronage studies have identified a number of factors, such as cost and benefits, service delivery (fast and efficient), size and reputation of the bank, convenience (location and ample parking), and friendliness of bank personnel, as either equally or more important criteria for the customers in selecting a particular Islamic bank. Table 2 provides a summary of the customers' selection criteria based on the patronage studies on Islamic banking.

⁹ There are quite a number of conceptual and theoretical types of literature linking the issue of ethics or other related topics to social and environmental aspects with the practice of business organisation and other economic endeavours from an Islamic point of view. See for examples, Naqvi (1981), Hasan (1983), AlHabshi (1987), Sattar (1988), Ansari (1989), Akhtar (1992), Pomeranz (1995), Akhtar (1996), AlHabshi (1996), Beekun (1996), Omar (1996), (1997), Al-'Alwani and El-Ansary (1999), Rice (1999), Ali (2000), Noor (2000), Naqvi (2001), Ahmad (2002), Hasan (2002), Musa and Salleh (2002), Ahmad (2003), El-Din (2003), Naqvi (2003), Rahman (2003). Some even contribute in making a comparative study between Islamic perspectives with other religions and ideological doctrines. See also Wilson (1997), (1997), (2001), Ahmad (2003).

Table 2: Patronage Studies on Islamic Banking¹⁰

Literature	Criteria in Banking Selection								
	A	B ^a	C ^b	D ^c	E ^d	F ^e	G ^f	H	I
Erol and El Bdour (1989)	-	+	+	+	+	+	+	+	+
Erol, Kaynak and El-Bdour (1990)	-	+	+	+	+	+	+	+	+
Haron, Ahmad et al. (1994)	-	+	+	+	+	+	+	+	+
Kader (1993)	+	-	+	+	n/a	+	n/a	+	+
Kader (1995)	+	-	+	+	n/a	+	n/a	+	+
Gerrard and Cunningham (1997)	±	+	+	+	+	+	+	+	+
Metawa and Almosawi (1998)	+	+	n/a	n/a	n/a	+	n/a	+	n/a
Naser, Jamal and Al-Khatib (1999)	+	+	+	+	+	+	+	+	n/a
Othman (2001)	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Othman and Owen (2002)	+	+	+	+	n/a	+	+	n/a	+
Ahmad and Haron (2002)	-	+	+	+	+	+	n/a	n/a	n/a
Omer (2002)	+	+	n/a	n/a	n/a	n/a	n/a	+	n/a
Abbas, Hamid et al. (2003)	±	+	+	n/a	+	+	+	+	n/a

Notes: + indicates a positive and important result, ± indicates an equivocal result, - indicates negative or no significant result and n/a indicates variable was not investigated/examined in the study.

A: Religious factor

B: Cost/Benefit

C: Service Delivery

D: Size and Reputation

E: Staff factors

F: Convenience

G: Confidentiality

H: Friends' and relatives' influence

I: Mass media Advertising

^a Cost/benefit factors include the cost of the services and products offered by the bank perceived by the customers e.g. Rate of return on deposits, investments etc.

^b Service Delivery criteria include factors such as provision of a fast and efficient service e.g. Application process and a wide range of services offered.

^c Size and reputation here imply the bank's reputation and image.

^d Staff factors include the competence and courtesy of bank staff and their ability to convey trust and confidence. For example, politeness and friendliness of staff; efficiency and effectiveness in handling any transaction; and knowledgeable and preparedness in providing solutions and answers concerning bank's products and services.

^e Convenience criteria include the location, ample parking space, the external appearance and interior comfort.

^f Confidentiality means the extent customers can have trust in their transactions with the bank.

As depicted in Table 2, the patronage studies on Islamic banking so far have largely focused on the combination of various religious, reputation, commercial, service satisfaction, staff, confidentiality and convenience factors. Notwithstanding the progress made to date in the study of customers' perception towards various banking selection criteria, the more focused research studying the various CSR

¹⁰ For details on the results of customers' perception on selection and patronage factors, refer Erol and El-Bdour (1989), Erol, Kaynak, et al. (1990), Kader (1993), Haron, Ahmad, et al. (1994), Kader (1995), Gerrard and Cunningham (1997), Metawa and Almosawi (1998), Naser, Jamal, et al. (1999), Othman (2001), Ahmad and Haron (2002), Omer (2002), Othman and Owen (2002), Abbas, Hamid, et al. (2003).

dimensions of Islamic banks is almost non-existent. Even though much literature on Islamic banking proclaims the distinctive characteristics imbued in Islamic banks particularly concerning their ethical norms and social commitment, there is a paucity of empirical research on their actual commitment on social responsibility. Similarly, although the norms, beliefs and attributes of stakeholders and Islamic banks are believed to be similar, so far there is no empirical study investigating the stakeholders' perception and reaction to CSR practises of Islamic banks.

Therefore, it is imperative to study the perception of various stakeholder groups towards the practise of CSR in Islamic banking. This will further contribute to filling the gap in knowledge especially with regards to CSR of Islamic banks which has theoretically proven to be of significance and prevalent in their operation.

3. Research Methodology

The main purpose of the study is to poll the opinion of different stakeholder groups of Islamic banks in Malaysia regarding CSR of Islamic banks. In particular, the study sets out to provide answers whether CSR criteria constitute part of the patronage factors influencing selection decision by the stakeholders of Islamic banks.

For this reason, a survey was conducted to elicit the opinion of seven stakeholder groups of two full-fledged Islamic banks in Malaysia (namely Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad): financing customers, depositors, branch managers, employees, Shari'ah advisors, regulators (Central Bank officers), and local communities. The choice of these groups was based on the grounds that they represent the primary groups of stakeholders of Islamic banks in Malaysia. The choice of these groups was also consistent with the popular definition of stakeholders which is defined as "*any group or individual who can affect or is affected by the achievement of the firm's objectives*" (Freeman 1984).

Survey Instrument

To minimise the element of bias that could emerge from the study, a structured questionnaire consisting of mainly close-ended types of questions with a few open-ended questions were carefully constructed for the study. The questionnaire content was adapted from many similar patronage studies of Islamic banks and other CSR-related studies. The questionnaire was originally prepared in English and then translated into Malay by using the backward translation method with an assistant from a third party who was fluent in both languages to avoid translation bias and error. Only minor discrepancies were observed between the original instrument and its back translated version and hence easily resolved by the translator.

Before the final version of the questionnaire was sent out, it was pilot tested to determine the appropriateness and relevance of the questions in the instrument. This early draft was circulated and piloted on lecturers at the Faculty of Economics

and Management Sciences, International Islamic University Malaysia, experienced researchers on CSR areas, businessmen, Islamic legal advisors and bank officers of the Islamic banks understudy. Based on the feedback from these respondents, several modifications were made to the wording of some questions, and some less important questions were deleted to reduce the length of the questionnaire. The final version of the questionnaire was then distributed to seven stakeholder groups of two main Islamic banks in Malaysia (namely Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad).

Data Collection

The process of data collection continued for three months, from May through July 2004. The data were collected through ordinary mail as well as self-administered questionnaires distributed by hand to individuals at the various Islamic banks' branches in the four chosen states representing four main regions of Malaysia; namely Kelantan (Eastern), Johor (Western), Penang (Northern) and Kuala Lumpur (Central). The mail survey was used in the study primarily on branch managers, regulators and Shari'ah Advisors. As for the customers, depositors, local communities and employees, the questionnaire were distributed by hand at the various Islamic banks' branches in the four main regions. These efforts were deliberately taken in order to seek wider representation of bank stakeholders.

Respondents were randomly selected from among customers, depositors and local communities who visited the sampling locations during the chosen time intervals, in order to eliminate the sampling frame errors and to ensure the representation of the population under study in the sample units. Following the data collection procedures outlined by Kader (1993; 1995), Gerrard and Cunningham (1997), Metawa and Almosawi (1998), and Owusu-Frimpong (1999), the questionnaires were distributed during various working hours of the same day (morning and evenings), as well as various days of the week during the three month period, to avoid any potential bias owing to high concentration of bank customers, depositors and local communities during certain hours of the day, or certain days of the week or month.

Table 3 shows the number of questionnaires that were distributed; the number of usable returned and completed questionnaire (the response rate), the overall response rate and the strategy used in distributing the questionnaire for each group.

Table 3: Target Groups, Methodology Used and Response Rate

Target Groups	Distributed Questionnaire	Usable returned and completed Questionnaire	Response Rate (%)	Methodology Adopted in Distributing Questionnaire
Customers	400	367	92	By Hand (fieldwork)
Depositors	400	383	96	By Hand (fieldwork)
Local Communities	400	280	70	By Hand (fieldwork)
Employees	400	335	84	By Hand (fieldwork)
Branch Managers	134	100	75	Mail Questionnaire
Regulators	36	25	69	Mail Questionnaire
Sharī'ah Advisors	10	10	100	Mail Questionnaire
Total:	1780	1500	84.27	

In general from the total of 1780 questionnaires distributed, 1541 were returned, out of which 1500 were usable (completed), yielding a response rate of 84%. The number of response is considered large enough and sufficient for statistical reliability and generalisability (Tabachnick and Fidell 1996; Stevens 2002). This high response rate would undoubtedly improve the validity and reliability of the survey since the greater the response, the more accurately it would estimate parameters in the population sampled (Pallant 2002). Hence, no further attempt was made to increase the samples.

Findings and Analysis

Respondents' Backgrounds

Table 4 summarises some basic statistics on gender, age, marital status, educational level and monthly income of the respondents. The respondents were predominantly male which constitute 64% of the respondents. There is quite a good mix of age group ranging from below 20 years of age to over 50, although a bulk of the respondents belongs to middle ages (20-40). Consequently, the opinions expressed in the survey could very well reflect the attitudes and perceptions of the middle-aged and younger respondents (that is if we consider those above 40 to be the older respondents). This again indicates that the sample is somewhat reflects the composition of the young and promising generation for the future of Islamic banking in Malaysia.

The results reported in Table 4 also indicate that the majority of respondents are well educated, with more than 23% holding college diploma, matriculation or A-level certificates and about 42% holding a bachelor degree or above. This information reflects the relative importance of paper qualifications especially for young generations to face the challenges in the present competitive world. Majority (48%) of the respondents were in the RM1000-RM3000 monthly income group. Eighteen percent of the surveyed respondents earned between RM3001-RM5000 per month. Combined together, the respondents in those two income groups represent approximately 66% of the total sample. This result indicates that most of the respondents can be classified as middle-class income earners since majority of them have monthly incomes within the range of RM1000 to RM5000. This finding captures closely the pattern of income distribution of Malaysian households which mainly (65%) consist of those with earnings between RM1000 to RM5000 or middle-class households.¹¹

Table 4: Distribution of Respondents

		Frequency	Percent (%)
Gender	Male	951	64.0
	Female	534	36.0
Age Group	Below 20	65	4.4
	20 – 30	592	40.0
	31 – 40	478	32.3
	41 – 50	274	18.5
	Above 50	70	4.7
Marital Status	Single	455	30.9
	Married	1018	69.1
Educational Level	Primary/Secondary School	485	33.0
	College Diploma/Matriculation/A-Level	351	23.9
	Bachelor	406	27.7
	Professional Qualification	80	5.4
	Postgraduate (Master or Ph.D)	128	8.7
	Others	18	1.2
Monthly Income	Less than RM1,000	288	20.8
	RM1,000 – RM3,000	667	48.1
	RM3,001 – RM5,000	250	18.0
	RM5,001 – RM10,000	150	10.8
	RM10,001 – RM20,000	23	1.7
	More than RM20,000	8	0.6

¹¹ According to the definition given in the Eight Malaysian Plan (2001-2005), lower-income households were defined as those earnings less than RM1500 per month. The middle-income households, defined as those earnings between RM1500 and RM5000. While higher-income households, defined as those earnings between RM5000 and above.

Factor Analysis: Support for CSR across Stakeholder Groups

Scholars have demonstrated that people identify themselves with organisations when they perceive an overlap between organisational attributes and their personal attributes (Maignan and Ferrell 2004). As stakeholders perceive that key organisational features are in harmony with their self-identity, they are likely to patronise the organisation (Scott and Lane 2000).

Against these backdrops, since Islamic banks and their various stakeholders share the same norms, beliefs and values, it is therefore expected that the practise of CSR may have a positive consequence on the organisation. This is because Shari'ah principles underpin the stakeholder norms, thus providing a common set of rules and behavioural expectations to be shared by the majority of the Islamic banks' stakeholders especially the Muslims. Since CSR is a natural outlook of an Islamic organisations prescribed by Shari'ah, various stakeholder groups are expected to support and influence the practises of CSR of Islamic banks. Consequently, CSR factor should be evident in Islamic banking stakeholders' perception and attitude especially in making decisions whether to patronize Islamic banks. Hence, the null hypothesis reads:

Ho: Stakeholders in Malaysia apply equal importance to the CSR factors along with other banking selection criteria when making a judgement about patronising Islamic banks.

To test this hypothesis, an exploratory factor analysis was conducted. Factor analysis with separate varimax rotation was run on twelve variables representing various attributes of banking selection criteria. These banking selection criteria or patronage factors have been extensively investigated in the literature (see for example Erol and El Bdour, 1989,1990; Haron, Ahmad et al., 1994; Gerard and Cunningham, 1997; Metawa and Almossawi, 1998; Othman and Owen, 2001,2002; Ahmad and Haron, 2002; and Abbas, Hamid et al., 2003). After a detailed review of these selection criteria and given the nature of this study, twelve basic attributes were selected and tested in the current study.

These widely investigated attributes from similar studies together with the newly created attributes related to CSR¹² are: financial product price, customer service quality (fast and efficient service), convenience (e.g. Available parking space, interior comfort), location being near home or work, friendly personnel, knowledgeable and competent personnel, Islamic working environment, economic and financial reputation, respect for human rights, Islamic reputation and image, involvement in the community and environmental practise and impact.

¹² For the purpose of this factor analysis, we include some items representing CSR initiatives variables as widely acknowledged in the literature. See for example CSR Europe (2001), EIRIS (2001, 2003), Greenwood (2001); Al-Khater and Naser (2003) and others.

In this study, the perceptions of stakeholders on twelve attributes or banking selection criteria are examined using factor analysis: (1) to determine whether the CSR factor contributes to one of the important indicators in their banking selection criteria and (2) to ascertain which of these factors is the strongest motivation. The results will then be used to investigate whether there is any significant difference in perceptions among various stakeholder groups.

In testing whether factor analysis was appropriate for the banking selection criteria, KMO and Bartlett's Test of Sphericity were conducted. The KMO test revealed a value of 0.865 while the Bartlett's Test of Sphericity also reached statistical significance (0.000). Based on these favourable results, factor analysis was conducted using principal component analysis (PCA) and varimax rotation with Kaiser Normalisation. The resulting varimax rotated factors are given in Table 5 along with communality values of each variable; eigenvalues and percentage of explained variance.

Table 5: Rotated Component Matrix^a on Banking Selection Criteria

Variable	Factor			Communality of Each Variable
	1 Reputation / service delivery	2 CSR of Islamic bank	3 Convenience/ product price	
X ₆	.766			.633
X ₁₀	.742			.642
X ₅	.670			.579
X ₇	.655			.545
X ₈	.624			.511
X ₂	.616		.434	.571
X ₁₂		.790		.649
X ₁₁		.715		.583
X ₉	.416	.631		.589
X ₄			.721	.646
X ₁			.586	.432
X ₃			.571	.548
Eigenvalue	3.191	2.148	1.589	
% of Variance	26.590	17.897	13.245	
Cumulative %	26.590	44.487	57.732	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

^a Rotation converged in 6 iterations.

Variables:

X₁	Product price factor
X₂	Customer Service quality (e.g. Fast and efficient services) factor
X₃	Convenience (e.g. Available parking space, interior comfort) factor
X₄	Location being near home or work factor
X₅	Friendly personnel factor
X₆	Knowledgeable and competent personnel factor
X₇	Islamic working environment factor
X₈	Economic and financial reputation factor
X₉	Respect for Human rights factor
X₁₀	Islamic reputation and image factor
X₁₁	Involve in community (e.g. Giving donation, scholarship) factor
X₁₂	Environmental practise and impact factor

The results in Table 5 reveal the presence of three factors with all 12 items of the banking selection criteria exhibit large factor loadings (above 0.3 significant levels). The eigenvalues for the three factors are above 1 (3.191, 2.148 and 1.589 respectively). These three factors explain a total of 57.73% of the variance. Specifically, Factor 1 has six significant loadings while both Factor 2 and 3 have three respectively.

Turning to an interpretation of independent dimensions based on the varimax rotated matrix as given in Table 5, one can see that the first factor delineates a cluster of relationships among the following attributes; '*knowledgeable and competent personnel*' (**X₆**), '*Islamic reputation and image*' (**X₁₀**), '*friendly personnel*' (**X₅**), '*Islamic working environment*' (**X₇**), '*service quality (fast and efficient service)*' (**X₂**) and '*economic and financial reputation*' (**X₈**). The nature of the highly loaded variables on this factor suggests that it can be named "*reputation and service delivery*". This "*reputation and service delivery*" factor contributes around 27% of the reasons for selecting Islamic banking. Since Factor 1 has the highest eigenvalue and variance, (eigenvalue = 3.19, variance = 26.59%) it necessarily represents the most important factor that has influenced stakeholders to patronise Islamic banking.

This result indicates that, the selection of Islamic banks appears to be predominantly a combination of Islamic and financial reputation and quality service offered by the bank. Therefore, Islamic banks must have good public relations to boost their reputation at the same time to foster good customer and employee relations in order to attract customers. The finding is consistent with many earlier Islamic banking patronage studies like Erol and El-Bdour (1989), Erol, Kaynak et al. (1990), Haron, Ahmad et al. (1994), Gerrard and Cunningham (1997) and Abbas, Hamid et al. (2003), in which reputation and the quality of service delivery including friendliness and competence personnel, fast and efficient service etc. Were found pertinent in influencing customers' banking selection.

Interestingly, the results of the factor analysis in Table 5 also reveal that the variables which have loadings on the second factor are ‘*environmental practise*’ (X_{12}), ‘*involvement in community*’ (X_{11}) and ‘*respect for human rights*’ (X_9). The combination of these variables can be compositely grouped together under the proposed heading of “*CSR of Islamic banks*”. The reasons are quite apparent especially when these variables were normally associated to dimensions under CSR in many previous studies (CSR-Europe 2001; EIRIS 2001; Greenwood 2001; Al-Khater and Naser 2003; EIRIS 2003). As shown in Table 4, Factor 2 “*CSR of Islamic banks*” accounts for 17.9% of the total variance and together with Factor 1 explains about 44.49% of the total variance. All three variables are moderately correlated with Factor 2 with factor loadings ranging from 0.631 to 0.790. The variables ‘*environmental practise*’ (X_{12}), ‘*involvement in community*’ (X_{11}) and ‘*respect for human rights*’ (X_9) seem to indicate that CSR commitments of Islamic banks were also taken into consideration by stakeholders when making a judgement to patronise a bank. The fact that stakeholders were also influenced by CSR commitments suggests that Islamic banks should promote the practise of CSR. It also suggests the appropriateness of CSR as an instrument to strategically market the organisation to consumers and other relevant stakeholders.

The third factor defining stakeholder banking selection criteria relates to ‘*location is being near home or office*’ (X_4), ‘*convenience (e.g. Available parking space and interior comfort)*’ (X_3) and ‘*financial product price*’ (X_1). For this factor, the suggested name for it is “*convenience and product price*” factor. The results of the factor analysis ranked “*convenience and product price*” as the least important factor compared with other variables, since it explains only 13.2% of the total variance for the variables in the data set. This result is somehow inconsistent with the previous conventional banking studies since convenience and product price factors have often emerged as the most common and important factors among the banking selection criteria. For example Almosawi (2001) and Gerrard and Cunningham (2001) found that convenience factors were of paramount importance in banking selection criteria compared to other factors based on their survey conducted on conventional banking customers in Bahrain and Singapore respectively (Almosawi 2001; Gerrard and Cunningham 2001).

Overall, the factor analysis reveals an important result indicating that CSR factor was considered as one of the important factors in making a judgement and decision whether to patronise Islamic banks. The ranking position of CSR factor as the second most important factor also suggests that the null hypothesis can be rejected. Moreover, it is also expected that the proportion of stakeholders influenced by this factor would be relatively high. This is confirmed by figures on Table 6, whereby high percentages of influence are evidenced for all the three variables constituting under CSR factors ($X_9 = 93.7\%$, $X_{11} = 90.2\%$ and $X_{12} = 82.9\%$).

Table 6: Frequency Distribution: Factor 2 Variables – Degree of influence on Stakeholders' Judgement on Islamic Bank

Degree of influence	Value	Environmental practise (X ₁₂) (%)	Involvement in community (X ₁₁) (%)	Respect for human rights (X ₉) (%)
Not Important at all	1	.7	.3	.3
Not Important	2	8.4	4.8	2.2
Cumulative %		9.1	5.1	2.4
Important	4	58.3	56.6	53.0
Very important	5	24.6	33.6	40.7
Cumulative %		82.9	90.2	93.7
Neutral	3	8.0	4.7	3.9
Mean Value		3.9789	4.1823	4.3164
Median Value		4	4	4
Mode Value		4	4	4

Kruskall-Wallis Test: Comparing Stakeholder Groups' Perceptions.

It is also imperative to investigate whether there is any significant difference in the perception of multiple stakeholder groups towards CSR as one of the banking selection criteria for Islamic banks. The null hypothesis reads:

Ho: There is no significant difference in the various stakeholder groups' opinions when considering CSR as an important patronage criterion of Islamic banks.

To test this particular hypothesis, the Kruskal-Wallis test was undertaken and the results are reproduced in the following Table 7.

Table 7: K-W Test Results Comparing the Mean Ranks of Banking Selection Criteria variable amongst the Stakeholder groups

Variable	Subgroup	N	Mean Rank	χ^2	Asymp. Sig. (p)
Reputation and Service Delivery Factor (V ₁)	K-W Test:			$\chi^2 = 19.183$	0.004
	Employees	328	756.25		
	Customers	349	727.21		
	Managers	96	723.01		
	Depositors	352	722.26		
	Local Communities	266	645.81		
	Shari'ah Advisors	9	605.06		
	Regulators	24	495.02		
CSR Factor (V ₂)	K-W Test:			$\chi^2 = 61.322$	0.000
	Depositors	363	817.23		
	Customers	358	786.71		
	Local Communities	271	701.42		
	Employees	330	656.29		
	Shari'ah Advisors	9	611.39		
	Managers	98	562.68		
	Regulators	25	487.30		
Convenience and Product Price Factor (V ₃)	K-W Test:			$\chi^2 = 10.439$	0.107
	Employees	323	771.91		
	Customers	347	723.20		
	Shari'ah Advisors	10	719.70		
	Depositors	360	697.33		
	Managers	99	696.40		
	Local Communities	268	683.28		
	Regulators	25	618.10		

Table 7 indicates that while there is a significant disagreement among the stakeholder groups on two out of three factors of banking selection criteria namely, 'reputation and service delivery quality' factor (V₁) and 'CSR of Islamic Banks' factor (V₂), no significant disagreement was found in the stakeholder groups regarding 'convenience and product price' factor (V₃). The chi-square, χ^2 values for the two variables, V₁ and V₂ (19.183 and 61.322 respectively) are higher than the tabulated chi-square value, $\chi^2 = 12.59$ at 0.05 confidence interval; 6 degrees of freedom. While χ^2 value for V₃ is 10.439, which is lower than the tabulated chi-square value. The observed significant level for V₃ ($P_{V_3}=0.107$) is higher than the 0.05 confidence level, which implies no variations between the seven groups of stakeholders in the population. However, the observed significance level ($P_{V_1}=0.004$, $P_{V_2}=0.000$) for 'reputation and service delivery quality' factor (V₁) and 'CSR of Islamic Banks' factor (V₂) variables are lower than the 0.05 level, indicating the existence of variations between the seven groups in the population.

Hence, the null hypothesis can be rejected. The findings clearly indicate that various stakeholder groups attach a different degree of importance especially towards the '*reputation and service delivery quality*' and '*CSR of Islamic Banks*' factors when making a judgement about Islamic banks based on the list of banking selection criteria.

To investigate which of the stakeholder group assigned highest or lowest in terms of importance with respect to the CSR factor of banking selection criteria, column 4 in Table 7 is reproduced. The result reveals the mean rank of depositors (817.23) and customers (786.71) exceeded that of other stakeholder categories. This suggests both depositors and customers are more likely to be attracted by CSR criteria than other stakeholder groups. In contrast, regulators were ranked lowest (487.30) in perceiving CSR as an important banking patronage factor based on the hierarchy of mean rank.

Two plausible explanations may account for this finding. Firstly, even though the commitment towards social responsibility is encouraged, there is no specific requirement by law or any official guideline or standards made available by the Central Bank (Bank Negara), especially for the regulators in overseeing CSR practises of Islamic banking operation. Secondly, it can be deduced from the results presented in Table 7, regulators are more concerned with the commercial aspects of Islamic banks particularly on the latter's ability and viability to compete and sustain in the dual banking system. This is not surprising since regulators are relatively more experienced and directly exposed to the actual scenario relating to stiff market competition in the dual-banking system. Perhaps, it is not that this stakeholder group do not care about CSR, but rather that they care and are concerned more about the bank's ability to compete, especially for Islamic banks which are still struggling to position themselves among the more established conventional banking system.

Conclusions

In this study, an attempt was made to investigate the perceptions of various stakeholder groups about CSR of Islamic banks in Malaysia. Seven stakeholder groups took part in the survey, namely customers, depositors, employees, branch managers, Shaṛī'ah advisors, regulators and local communities. Overall, the findings revealed that stakeholders of Islamic banks in Malaysia have generally positive views of CSR. One of the most important reflections of their positive attitude is that CSR factors are evidenced as one of the important criteria in their banking selection decisions. This implies that Islamic banks operating in a competitive dual-system like Malaysia can still create their own niche in the market for those who are committed and concerned with socially responsible and ethical banking.

The findings prove that the issue of CSR is therefore not foreign to Islamic banking. Rather, it shows the relevance of CSR as a globally accepted practise to

Islamic banks. The Islamic banking system has an in-built dimension that promotes social responsibility, as it resides within a financial trajectory underpinned by the forces of Shari'ah injunctions. These Shari'ah injunctions interweave Islamic financial transactions with genuine concern for ethically and socially responsible activities at the same time as prohibiting involvement in illegal activities which are detrimental to social and environmental well-being.

There are fundamental differences between Islamic banking and conventional banking, not only in the ways they practise their business, but above all the values which guide Islamic banking whole operation and outlook. The values as prevailed within the ambit of Shari'ah are expressed not only in the minutiae of its transactions, but in the breadth of its role in society. This demands the internalisation of Shari'ah principles on Islamic financial transactions, in its form, spirit and substance. By so doing, it epitomises the objectives of Shari'ah in promoting economic and social justice. Hence, while the virtues of Islam have always advocated social responsibility, the challenge to Islamic banking communities lies in its application. For Islamic banks, good CSR practises should have already been embedded in all aspects of their operations.

Indeed, Islamic banking should endeavour to be the epicentre in the financial galaxy of promoting good CSR practises. In this respect, an assimilation of CSR and other Islamic ideals in fulfilling stakeholders' expectations deserves utmost consideration as it represents a fundamental difference between Islamic and conventional banking, and has the potential to propel Islamic banking to greater heights in securing stakeholders' recognition and acceptance.

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